Report of the

Standing Senate Committee on
4
National Finance on

PROCEEDINGS
5

GOVERNMENT POLICY

AND

REGIONAL DEVELOPMENT

Chairman

The Honourable Douglas D. Everett

Deputy Chairman

The Honourable Fernand-E. Leblanc

First Session

Thirty-second Parliament

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On Tuesday, April 29, 1980 the Senate resolved:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending the 31st March, 1981, tabled in the Senate on Wednesday, 23rd April, 1980.

Members of the

STANDING SENATE COMMITTEE ON NATIONAL FINANCE

(*as of 4 August 1982*)

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and
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Note: The Honourable Senators Allister Grosart and Lowell Murray also served on the Committee during the First session of the Thirty-second Parliament.

Other Senators who served on the Committee were:

The Honourable Senators Keith Davey, Paul Desruisseaux, Nathan Nurgitz and Maurice Riel, during the First session of the Thirty-first Parliament.

The Honourable Senators David A. Croll, B. Alasdair Graham, Leopold Langlois, Gildas Molgat, Joan Neiman, George I. Smith (Colchester) and Claude Wagner, during the Fourth session of the Thirtieth Parliament.

The Honourable Senators Jean-Pierre Côté, Louis de G. Giguère and Paul Yuzyk, during the Third session of the Thirtieth Parliament.

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APPENDICES

Acknowledgements

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It also wishes to acknowledge the strong support it received from the staff: Mr. J.H.M. Cocks, the Clerk of the Committee when the inquiry began, and his successor, Mr. John Desmarais; Mr. P.C. Dobell, Mr. Peter Sagar, Ms. Wendy McBride and Mr. Peter Kemball of the Parliamentary Centre who acted as advisers; Professor David McQueen of Glendon College, York University who served as a consultant; Mrs. Elizabeth Macaulay who typed the manuscript and the Chairman's secretary, Mrs. Norma Balik.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

SECTION ONE: THE PROBLEM AND THE APPROACH

Chapter 1: Disparities and Development

A Problem of Definition

The word 'region' has many meanings and various applications. Canadians speak of the four or five dominant regions of the country — the Atlantic region, the Prairies and so on — or they use the term region when referring to the ten provinces and the two northern territories. But in dealing with the problems of regional disparities, these meanings are inappropriate and misleading. Within each province there are areas of economic vitality, strength and potential. These areas are in a position to benefit from ongoing national programs and are most often associated with the more populous urban areas. But within each province there are other areas — often geographically large — of lesser economic prosperity, underdevelopment, unexploited resources, and unemployment and poverty.

This Committee's specific concerns are with those identifiable regions across the country in which economic development has lagged. These regions within the boundaries of all provinces, even the richest, require special policies and assistance if they are to escape their present state of economic stagnation. The Committee considers this a most important concept from which many of the recommendations in this report flow. It frees policy makers from the concern about the differences in wealth between the major regions of Canada and, more importantly, between the provinces. It means that all provinces have a stake in regional development and that the federal and provincial governments have very similar objectives in the alleviation of regional disparities.

A central conclusion of this report is that all provinces of Canada contain areas of relatively prosperous economic development and areas of economic distress. Therefore all provinces, whether wealthy or not, have a stake in the

alleviation of regional disparities. It follows from this that the federal government's concern should be focused less on the differences between the provinces and more on the development of the lagging areas within each province. Viewed in this way, the federal and provincial governments have similar objectives in regional development. (page 24 of the report)

Why It Matters

Regional disparities do create unequal opportunities among Canadians in terms of education, social facilities, career choices, social development. Disparities strain the fabric of national unity and create feelings of inequity in the less developed regions. Disparities represent a waste of Canadian natural and human resources. And because Canadians strive through transfer programs to alleviate the hardships caused by disparities, the economic development and the wealth of other parts of Canada is eroded. For all these reasons, Canada cannot allow disparities to continue to the same extent as at present. However, this conclusion needs qualification:

- Disparities cannot be reduced just by pouring more money into the less developed regions. Such transfers may simply serve to reinforce the status quo without ensuring the real changes needed to remedy the existing problems.
- Efforts to reduce disparities should not place too onerous demands on the stronger parts of the Canadian economy. Even the healthiest sectors and regions of Canada must compete in international markets, and there are limits to what the country can afford in order to build up less well-developed regions.
- Efforts to relieve the unfortunate effects of regional disparities must be based on the sound economic development of the least developed regions. Sound development implies the creation of industries that are ultimately competitive within Canada and internationally, that provide a range of good jobs on a stable basis, and that do not require ongoing government assistance. It also means the creation of an atmosphere in which development can continue apace with the rest of Canada and the world.

A major thrust of Canadian regional policy has been toward the minimizing of disparities. By contrast with the United States, income redistribution and the alleviation of interpersonal differences have had higher priority in Canada. The result has been to impede the adjustment of costs in the lagging regions that would encourage investment in development, which is the surest way to reduce disparities. The most effective way to attack regional disparities is to define the economic potential of the less developed regions and to encourage development to that potential. (p. 26)

The Road to Development

Witnesses advanced a number of theories concerning regional development. Some believed that development depended on growth poles, that is, clusters of mutually supporting industries in an urban area of sufficient size to support broad ranging activities. Others took a Keynesian view of development,

looking to the need to promote aggregate demand for a region's products. Still others looked to networks of interactions among regions to explain growth and the lack thereof. Even a monetarist or, more precisely, a gold standard based theory was put forward, which highlighted the importance of a region's payments balance with other regions. We should note that the absence of consensus among our witnesses is not attributable to intellectual failure, but rather reflects the wide range of factors that can and have inhibited regional development in Canada.

In many, if not most of the less developed regions, a combination of factors is responsible for poor economic growth. This suggests that the problems and opportunities currently facing each area are different, and that the solutions must be individually tailored to match the distinct needs of each region. (p. 28)

Chapter 2: Goals and Strategies

Defining the ultimate goal for policy — the creation of self-sustaining growth within those regions of Canada currently bereft of such momentum — provides little guidance for policy makers about how to achieve this end. In particular, the questions 'How can this self-sustaining growth momentum be achieved?' and 'What government policies are required to achieve this end?' must be addressed. In attempting to answer these questions, the Committee has been guided by the firm belief that government policies must be in harmony with the competitive structure of the Canadian and international economies, and that the free market must ultimately be the basis of economic growth and development. In short, the development of each region of Canada should be based on its comparative advantages and should ensure that the region reaches its full economic potential.

On Comparative Advantage

Comparative advantage means that economic development in a region must be based on those activities a region can do best. This may seem obvious, but it has several implications:

- Each region need not be a miniature replica of every other region. The Canadian and world economies depend on trade, and trade is, after all, a reflection of one area doing something better than others. Each region should do what it is most able to do and trade for products it is less adapted to produce.
- Comparative advantage suggests that development should be focused in some way so that those facets of a region that offer the best returns can develop. This requires that policies not interfere with the evolution of those sectors and that resources not be drawn from areas of comparative advantage into sectors that, unaided, will ultimately be unable to stand the tests of the marketplace.

- Comparative advantage can only be determined in the marketplace. A reliance on this concept should reduce the tendency of governments to try to pick winners based on non-market criteria such as the purported superiority of high technology industries over stable and productive but more pedestrian enterprises.

The Committee recommends that development be based on the principle of comparative advantage so that each region does what it is most able to do and trades for products and services it is less adapted to supply. (p. 31)

The Role of Government: The Positive Approach

Governments must use the policies at their command judiciously to avoid negating the effects of natural economic adjustment mechanisms while turning the tide of decline. With respect to market forces, governments must ensure that the rules and regulations governing economic life in Canada are conducive to the efficient functioning of the market. This means that policies with respect to competition must try to maintain free and fair markets. And it means that when governments interfere with market functioning, such as when transfers to individuals and other governments are involved, or when governments regulate economic activity in order to achieve other goals such as environmental protection and market safety, they must consider carefully their effects on market efficiency. In the same vein, through their ability to direct their own programs essential to economic development, and through their ability to influence the course of private sector activity, governments can significantly accelerate the pace of regional growth.

Government intervention is an essential element of regional development, but this intervention should interfere as little as possible with the operation of natural market forces and, indeed, should encourage them. (p. 33)

The Need to Persist

There is agreement in Canada that regional disparities represent a serious national problem, but this is about as far as the consensus goes. The Committee believes that, as a minimum, an effort must be made to widen the consensus in two basic respects. First, there must be a commitment by governments in Canada to work directly and steadily to promote the economic development of the less developed regions of Canada. And secondly, there must be general acceptance of the perception that regional development can only be achieved slowly, that it requires significant resources and that policies must be steadily pursued.

Regional development progresses slowly because it requires the weaker regions to grow faster than the national economy. It can only be achieved if the appropriate policies are steadily pursued and consistently funded. This causes problems in a democratic society that seeks quick results. (p. 34)

SECTION TWO: THE ROLES OF GOVERNMENT

Chapter 3: Laying the Foundations

A basic measure of the level of development of any country or region and a determinant of its economic potential is its infrastructure. Infrastructure is a rather nebulous concept representing the entire set of social assets that are essential for the production and distribution of goods and services and for the preservation of the well-being of individuals. It includes roads and railways, communications systems and pipelines, schools and hospitals, and water systems and sewage treatment plants. Infrastructure development is clearly an essential component of economic development and it can, if wisely employed, lead and focus economic growth. The development strategy for the less developed regions must include infrastructure.

Basic Concerns

The Committee is convinced that close co-operation between the two levels of government—federal and provincial—is necessary to ensure that infrastructure decisions are based on sound economic analysis and not distorted by short term political considerations. Indeed, consultations should be even wider. Private sector and local government input must be sought and considered in planning future infrastructure development.

The General Development Agreements (GDAs) require an assessment of the potential of a region, research into the most effective ways to reach that potential, and they involve each provincial government in planning, delivery and cost sharing. They are the recognition of our basic principle that all provinces contain areas of relatively prosperous economic development and areas of economic distress, and that the federal and provincial governments have the same objective of encouraging development in the lagging areas. The GDAs co-ordinate the policies of the federal and provincial governments and tend to make federal sectoral departments more aware of their regional development obligations. Additionally, the GDAs embody a longer term strategy and therefore impose a discipline on both levels of government that is essential to the achievement of a regional development policy.

The most effective area for government intervention in the field of regional development is in the maintenance and improvement of the infrastructure. To be effective, decisions regarding infrastructure must be taken after full consultation and in close co-operation with provincial authorities. The General Development Agreements with the provinces have provided an excellent framework for the planning and development of new infrastructure, and

the decision to allow the General Development Agreements to lapse should be reconsidered. (p. 39)

The Soft Infrastructure

a) Manpower Training and Re-training

From the point of view of the individual, inadequate manpower training represents a door closed to new opportunities. It means that jobs, once lost, may be difficult to reacquire if new skills are needed. It means lower wages and a greyer future. From the perspective of business, the training of individuals is also vitally important. Without skilled tradesmen, business cannot expand, productivity is lower, and the costs of doing business are increased. In short, for all of Canada, adequate manpower training programs, whether conducted by governments alone, through private enterprise with government assistance, or through government-industry co-operation, are essential. The Committee considers it important that training not be limited to skilled and semi-skilled trades, but should be extended to include the management functions so important to modern business. Ultimately, of course, it is Canadian firms and individuals who must get out and sell Canadian goods and services. Marketing is a specialized function, one with its own cadre of professionals. We suggest that officers of firms in the less developed regions should be assisted financially to participate in marketing training programs.

Training of people has become one of the most important elements in the provision of infrastructure. This training should be directed to the skills required in a modern economy that is based on technological and resource development, and it should include training in management and marketing to assist the less developed regions to realize their potential. (p. 41)

b) Research and Development

We feel that there is a need for federal government-sponsored efforts — whether in federal research stations, through universities, or through aid to private sector research — to account, through research and development, for the special difficulties inhibiting the full exploitation of Canada's resources in the least developed regions. In these activities it will be essential to ensure that the people affected contribute to the research.

The government's contribution to promoting regional development through the provision of infrastructure should include the support of research to overcome problems and to increase the efficiency of production in the least developed regions. (p. 41)

Chapter 4: Government with Industry

Productivity and Economic Development

Improving productivity is one of the surest ways to achieve the development of viable industries. The difficulty is that the least developed areas of Canada have the lowest productivity. The developed areas enjoy greater productivity, due to more capital per worker; more intensive use of machinery and equipment; improved education, skills and experience; improved standards of management; and better application of technology. The less developed areas are trapped in a vicious circle; the role of government is to break the circle. Too often governments have attempted to fulfill this role by minimizing disparities through income and other support programs and by having as their goal the creation of jobs. These initiatives militate against improvements in productivity and thus against development. The correct role for governments is to improve the productivity of the less developed areas. This is best achieved by defining the potential of the area and putting in place infrastructure and policies that encourage the market economy to develop to that potential through innovation and not just through growth of what already exists. It is important that the objective be the encouragement of competitive industries that provide productive jobs and not just the provision of jobs.

Productivity is the key to development, and the central role of government should be to encourage the improvement of productivity in the less developed areas. Improved productivity is not achieved by minimizing disparities or by development that has as its main goal the creation of jobs. It is achieved by defining the potential of the area and putting in place infrastructure and policies that encourage the market economy to develop to that potential through competitive industries that provide productive jobs. (p. 49)

Megaprojects

Effective economic development must take account of rational economic market requirements. If government subverts rational market mechanisms in an effort to direct the benefits of megaproject investment, we fear that the projects could suffer. The significant benefits megaprojects can bring must be allowed to stem from the functioning of Canadian markets. With respect to opportunities to develop industries to provide supplies to the projects, there is a strong probability that the strongest regions will derive most of the benefit. The needs of the megaprojects — the machinery, steel and other supplies — can already be produced in the major manufacturing centres of Canada. Under present economic conditions, excess industrial capacity exists to supply the megaprojects without requiring, in most circumstances, additional capital investment. Therefore, even if the megaprojects currently foreseen are actually put in place, there is little likelihood that the weakest regions will benefit nearly as much as the strongest regions.

Rather than serving as the basis for the development of the least developed regions, megaprojects could serve to widen the economic gulf separating the well and less developed areas of Canada. Within the area of a project, large scale employment may be generated only during the construction phase. As for the production of supplies needed in projects, the strongest regions may derive most of the benefit. (p. 54)

Procurement

We do not subscribe to the belief that procurement policy should be used specifically to foster regional development or that preferential purchasing has any positive role to play in making Canadian industrial policy. However, firms in the less developed regions face difficulties in quoting on government procurement contracts because of the large size of orders placed, detailed government specifications and complex application procedures. If the government ordered in smaller quantities, introduced simpler procedures and called for less detailed specifications, the capacity of firms in less developed regions to compete would be enhanced.

Procurement policy and preferential purchasing should not be used specifically to foster regional development. Nevertheless, those aspects of purchasing policy that disadvantage producers in the least developed regions should be examined and possibly eliminated. The additional costs incurred should be monitored closely and compared with the benefits in terms of regional equity. (p. 55)

Chapter 5: Directing Investment: To What Ends

Industrial Structuring

Industrial structuring, that is, the selection by governments of certain industries for support, is a minefield. It is dangerous for goverments to attempt to determine which industries should be built up and which left to their own devices. With their vast resources, governments may be tempted or pressured into providing ever-increasing support to justify their original decision. History is replete with success stories of unknown industries finding unexpected markets. At the same time, the sad case of the buggy whip industry should warn us of the dangers of depending on an industry that might become obsolete overnight.

However, certain conventional wisdom permeates our regional development policies, becoming a form of industrial structuring. It is widely believed that the preferable areas for promoting development are in manufacturing and resource upgrading. There is also a new wisdom, which asserts that industry based on high technology is the most desirable form of development, and a folk-lore belief that Canadians should avoid at all costs being ‘hewers of wood and drawers of water’.

The recipe for success in development is to encourage investment in industries whose products are required by the market and can be produced at a competitive cost. Canadians should be wary of the conventional wisdom that manufacturing, natural resources processing and high technology are superior forms of investment. Canadians must be willing to consider all forms of investment, provided they are based on the concept of comparative advantage.

It is dangerous for governments with their vast resources to back some industries while leaving others to their own devices. There is no evidence that governments possess insights that are lacking in the marketplace. The recipe for success in development is to encourage investment in industries whose products can be produced at a competitive cost. There has been a bias in our policy toward investment in manufacturing, resource upgrading and high technology. This bias should be discarded, for governments must be willing to consider all forms of investment, provided they are based on the principle of comparative advantage. (p. 59)

Overlooked Areas of Development

In the formulation of a regional development policy there are three areas of investment that may tend to be overlooked:

1. **Non-renewable resource development projects often attract more attention because of the drama that surrounds them, but renewable resource industries such as farming, fishing and forestry have made great strides in the use of technology to improve their efficiency. They can make a major contribution to regional development directly and, indirectly, through the spin-offs of supporting service and manufacturing industries.**
2. **Many parts of the service sector do not exist merely as adjuncts to resource and manufacturing developments. There are service industries that exist on their own and contribute greatly to development. Although it is labour intensive, the service sector has made excellent productivity gains.**
3. **The improvement in communications technology could permit decentralization of industry to an extent that was not possible in the past. In many industries, smaller units, widely dispersed could be more efficient than large concentrated units. This could result in considerable development in the less developed areas of Canada. (p. 60)**

Head Offices

The location of a head office can be important in two basic ways. First, a company whose head office is located within a region can be more sensitive to the needs of the region, more concerned with the development of the local economy and social institutions, and can make an important contribution to the development of the area. Second, head offices are major consumers of supplies and services, so that the presence of a head office can serve to stimulate the development of other sectors of the economy. In addition to these financial reasons for believing that head offices can encourage regional development, there are several other considerations. Head offices attract managers and other

highly trained personnel. They are symbolic of the region's success and potential and contribute immeasurably to the pride and feeling of accomplishment of the area's population. And head offices, through their charitable contributions and support of local institutions, can greatly improve the social and cultural standards of the communities in which they are located.

Improvements in communications technology permit a wider distribution of head offices throughout Canada, with beneficial economic effects for the major regions and, indirectly, for the less developed areas of the country. Accordingly, the government should investigate the possibility of using tax incentives to encourage a wider distribution of head offices across Canada. It should not be too difficult to ensure that these incentives apply only to real, as opposed to nominal, head offices. (p. 62)

Rationalization

The government should assist industries that are subject to unfair foreign competition and it may help industries to adjust to new conditions, but when an industry is no longer viable without continuing government assistance it should be phased out with as little damage as possible to the economy and to people. (p. 63)

A Question of Conditions

When a firm receives government assistance, the opportunity exists to place conditions on it that may exceed those applied to other firms. Hiring practices could be regulated to ensure equality or even remedial hiring of one group or another; its sales could be limited to prevent it from dealing with regimes in other countries that are viewed as unsavoury; and additional environmental rules could be put in place. If the government has legitimate restrictions it wishes to place on business or if it wishes to modify business behaviour in some way, it should proceed to pass laws that apply equally to all businesses.

Governments should resist the temptation to take advantage of assistance offered to firms to place restrictions on their activities. Investment in less developed regions is likely to be marginal, and additional restrictions can only reduce the viability of the investment. (p. 63)

SECTION THREE: NEW STRUCTURES AND APPROACHES – ARE THEY ADEQUATE?

Chapter 6: The Curtain Comes Down

This is an introductory chapter and contains no recommendations.

Chapter 7: The New Federal Machine

Who is to be Concerned for Regional Disparities?

Under the previous structure, the least developed regions had a defender within the federal government — the Minister of Regional Economic Expansion. Now that this department has been disbanded, its policy mandate transferred to the Ministry of State for Economic and Regional Development (MSERD), and its program delivery responsibilities assigned to the Department of Regional Industrial Expansion (DRIE), who will champion the cause of the least developed regions in Cabinet? The ministers heading MSERD and DRIE both have divided responsibilities, and the regional emphasis placed in the government's reorganization announcement shows a strong concern for securing credit for federal initiatives of all kinds in the provinces.

As DRIE selects individual projects for assistance, a strong bias against the least developed parts of the country, where the risks are highest, could easily develop, unless the department and its minister are assigned a very specific mandate to promote development in the least developed areas, and this mandate is seen as separate from the other activities of the department. The same concerns apply to MSERD. Its responsibilities are broader and therefore more diffuse. The emphasis given to megaprojects in the government's statement on MSERD suggests that its focus will be 'where the action is'. The implication was that the fall-out from the megaprojects would look after the least developed regions, an assumption we have already questioned. The Committee has stated its strong belief that Canadian governments must continue to be concerned with assisting the least developed regions of the country to develop themselves. There are disturbing signs that the government reorganization, while paying lip-service to regional disparities, will be focused on the main chance.

With the demise of DREE, there is no longer a federal department with the sole mandate of promoting development in the least developed regions of the country. There is a risk that the Ministry of State for Economic and Regional Development and the Department of Regional Industrial Expansion, which have responsibility for the prosperous as well as the least developed regions, may pay diminished attention to the latter. Accordingly, MSERD and DRIE should receive legislative mandates requiring them to pay special attention to the problems and needs of the least developed regions of this country. (p. 73)

Need for Designated Regions

Designating the least developed regions for special status to ensure that regional disparities are not forgotten is not an easy task. As DREE discovered, a political system generates enormous pressures to extend the boundaries of programs that generate cash flow. As a result, DREE ended up including more than half the geographic area of the country in the designated areas, and the purpose became hopelessly diluted. But without DREE to argue the case for the least developed regions, it becomes very important that MSERD designate, in co-operation with the provincial authorities, specific regions of the country that most require, and that could benefit from, special industrial assistance programs.

Our concern is for those regions that for many years have known little more than failure and threatened failure and have existed at income and employment levels well below those in other parts of Canada. These areas have not fallen recently from economic grace in the same way that certain manufacturing areas in southern Ontario have done. The regions that concern us have never known such grace.

MSERD should be directed, in co-operation with provincial authorities, to designate specific regions across Canada that most require and that would benefit from regional development programs. This designation should be confined to the least developed areas of Canada and should not include areas that require special industrial adjustment assistance during a period of transition or industrial disruption. (pp. 73-74)

Other Departments

Effective economic development in Canada requires the efficient involvement of all the arms of government. Transportation and communications, for example, are essential components of growth, as are reasonable and productive labour and manpower facilities and efficient environmental safeguards. All departments must be keyed in to the unique requirements of the designated areas, and this requires policy co-ordination and concern across government. The work of the Cabinet Committee on Economic and Regional Development will be essential in this regard. Its members must be ever sensitive to the regional problems of the Canadian economy and prepared to involve their departments in co-operative and co-ordinated efforts to overcome them. To ensure that the responsible ministers and officials of MSERD and the other departments involved focus regularly on these issues, every government depart-

ment should undertake annual assessments of the effects of their policies on the regions designated by the Ministry of State for Economic and Regional Development. These reports should be assessed by MSERD in terms of the effectiveness of departmental programs in reducing disparities, and the MSERD assessments should be reviewed by the Cabinet Committee on Economic and Regional Development.

Every government department should undertake annual assessments of the effects of their policies on the designated regions, and these reports should be assessed by MSERD and reviewed by the Cabinet Committee on Economic and Regional Development. (p. 76)

Chapter 8: Co-operating with Provincial Governments

The federal government can be particularly effective in assisting regional development by providing infrastructure; by providing a tax regime that encourages investment; and by ensuring that national policies do not favour the more developed over the less developed areas. The difficulty is that the wealthy provinces tend to enjoy advantages in these fields over the less wealthy provinces. For example, the actions of provinces can neutralize federal fiscal regional development measures. There is an increasing tendency for provincial governments to use fiscal measures to achieve social and economic goals, especially through the use of tax incentives, and of course the advantage in this area lies with the wealthier provinces.

Because of the advantages enjoyed by wealthy provinces in the development field, it is essential that the federal government be involved in regional development. The federal government must retain a strong capacity to support and strengthen the less advantaged areas, and it has a particular responsibility for ensuring that the pursuit of regional interests takes place in a manner that strengthens rather than fragments the economy. In addition it must ensure the maintenance of the Canadian common market, encourage the provinces to support each other's development policies, and prevent the economic balkanization of the country. It would be fairly simple if Canada were a unitary state, but it is a complex federal state with a division of jealously guarded powers. This means that the federal government has a strong role to play in regional development and the reduction of regional disparities, but it must seek the co-operation of the provinces. Given that it is unlikely that the wealthy provinces will refrain from using their resources to promote their own development, there must be some rationale on which the co-operation of federal and provincial governments in regional development policies can be based. If all provinces have both developed and underdeveloped areas, then there is a strong community of interest between the federal and provincial governments in regional development; it is therefore in their respective interests to co-operate in this field.

The General Development Agreements

For the past decade, the two levels of government approached regional disparities through a very basic mechanism, the General Development Agreements (GDAs). These agreements occupied a considerable part of our examination of the intergovernmental aspects of regional development; generally, we were impressed by their logic and potential. This system offered a number of significant advantages, including the ability to co-ordinate federal and provincial activities and the means to specify goals and objectives incorporating explicit strategic elements directly in the planning. Specific provision was also made for the active involvement of federal departments other than DREE, and many of the subsidiary agreements were co-signed by these departments. Finally, the negotiations offered a vehicle for the appraisal and evaluation of each specific project.

Because the federal and provincial governments share a common interest in regional development, as well as the powers necessary to promote such development, co-ordination of their activities in this field is essential. The General Development Agreements have been an effective instrument for promoting co-ordination. Accordingly, the decision of the federal government to allow the GDAs to lapse is unwise and should be reconsidered. The federal government should continue to co-ordinate its relations with provincial governments in promoting regional development through broad agreements, drawing on the positive features of the GDA approach:

1. **The new agreements must be explicit in setting out objectives, strategies, timetables, and the division of responsibilities among governments; they must be subject to periodic review and re-negotiation; and the nature of the future involvement of federal ministries should be specified as fully as possible, with a view to effective recognition and performance review.**

2. **Federal government complaints about the lack of recognition for its significant contributions to regional development are justified. However, the policy of direct delivery that has been suggested is only a partial answer to the problem. Direct delivery of programs by the federal government should be strictly within the GDAs, for if it is attempted outside them, we believe the results will be costly and unsatisfactory. To overcome the problem, the GDAs should contain an agreement with each province assuring the federal government of recognition for its contributions. (p. 82)**

SECTION FOUR: BUILDING FOR GROWTH

Chapter 9: Aiding the Private Sector: Principles

The use of incentives for promoting regional development should be guided by five broad principles:

PRINCIPLE 1: The goal of investment incentives programs must be to create new industrial capacity in Canada, not simply to induce existing investment to relocate from one region to another.

PRINCIPLE 2: Incentives should be designed to assist those operations that can become viable in the future without continuing government assistance.

PRINCIPLE 3: New and established firms should be equally eligible for assistance.

PRINCIPLE 4: Incentives should not create a preference by the investor in favour of the use of more or less capital or labour.

PRINCIPLE 5: Investment incentives must be capable of being administered efficiently from both the government and business perspective and must not be subject to abuse by either business or political forces. (pp. 85-88)

Chapter 10: The Tools

The three basic categories of investment incentives are cash grants, tax advantages and financing assistance. Although the Committee analyzed each category and has suggested some principles to be observed in their use, it found that due to the inaccessibility of data, especially tax data, evaluations of their relative effectiveness in the less developed regions are inadequate. To remedy this situation, the federal and provincial governments should initiate, fund and provide complete co-operation with a series of studies on the effects, efficiency and efficacy of the use of investment incentives in the less developed areas. The studies should not be conducted within the government, but government data should be made available to researchers. (p. 97)

SECTION FIVE:
STRENGTHENING THE MARKET SYSTEM

Chapter 11:
The Personal Transfer System

Transfers are integral components of the sharing of Canada's prosperity. They guarantee certain minimum standards of living, protect the welfare of all Canadians, and afford all provinces the ability to provide reasonable levels of services to their citizens. We are not concerned with whether transfers should continue. However, we are concerned with the form and extent of the transfers and, in particular, with their effects on the Canadian market system and hence regional development. Transfers represent significant means to improve living standards and other conditions in the less developed regions and hence can improve their development prospects. However, to the extent that transfers distort the functioning of natural economic adjustment mechanisms, they can also hinder development and lead to inappropriate social and economic policy decisions. The objective should be to retain those properties that facilitate development and efficiently implement social and other programs, while purging the system of those that block normal economic growth.

Transfer payments to individuals help to improve living standards in the less developed regions of the country and thus contribute to regional development. However, they can interfere with worker mobility and they impede the adjustment of costs in the lagging regions which, if not allowed to occur, discourages new investment. Although most transfer payments are geographically neutral, some are not; these distort the functioning of the market economy and exacerbate the structural causes of regional disparities. The unemployment insurance program is the best example of this tendency, for it results in inefficient decisions by individuals and businesses, thus affecting work patterns and mobility, leading to dependency and retarding growth. It should be revised or replaced by an alternative system of income replacement that helps to preserve the work ethic and does not discourage worker mobility. (p. 106)

Chapter 12:
Transfers to Provinces

The central thrust of this report is that government expenditure intended to develop a region's economy is to be preferred in general to expenditures that only compensate for an existing disparity. But this distinction between expenditures to promote development and expenditures to compensate for disparities is rarely clear-cut. No region or sub-region is going to be able to maximize its developmental potential without an adequate supply of schools, hospitals,

policing and other public sector infrastructure and services. Fiscal arrangements do not directly influence industrial location, but they do contribute to regional development in a fundamental way by assisting provinces to provide a higher standard of public services. They contribute to the provision of the basic economic infrastructure and social services that are essential in the long run to economic development. This assistance comes in a way that allows provincial governments wide latitude in the kind of development they wish to foster. The object of policy thus becomes to ensure that the system of equalization payments is as efficient an instrument as possible to promote this development.

The system of equalization payments and of shared-cost programs enables all regions to provide reasonably comparable levels of public services, and in this way they contribute to regional development. (p. 114)

Chapter 13: Competition, Trade, Regulation

Competition Policy

An effective competition policy can encourage regional development. It is important to ensure that new and smaller competitors that may grow up in the least developed areas can compete on a fair basis with existing and usually larger Canadian and multi-national firms. Without an effective competition policy, the smaller firms could be effectively crowded out of these larger, prosperous markets and even out of their own local markets, by stronger established firms using unfair practices. In another vein, the small size of the least developed areas leaves them open to the development of internal monopolies — especially for goods and services that are not traded over long distances. Internal monopolies could in and of themselves distort the effective development of the areas of greatest disparity and stymie efforts to further their development.

An effective competition policy is desirable for many reasons, one of which is that it can encourage economic development in the least developed regions. (p. 116)

Trade Policy

Regional development should be undertaken within a national context that recognizes the need for competitive cost and price structures in the international marketplace. Freer trade, by strengthening the national economy, will ultimately facilitate development in the less developed areas. When restrictive trade practices are found to be necessary, a termination date should be specified to ensure that the measure is not extended. (p. 117)

Economic Regulation

The Committee recognizes that regulatory intervention in certain areas is inevitable and desirable in Canada. But regulatory intervention need not continue to balkanize the Canadian economy, create excess costs for Canadian producers, and distort the functioning of Canadian markets. We are convinced that there is tremendous scope for Canadian governments at both levels to reduce the differences in their regulatory regimes and to create more efficient regulatory mechanisms. We believe that regulatory interventions should be designed to have minimal negative effects on the functioning of Canadian markets and should not be used to inhibit the free movement of goods, services, capital and individuals across Canada. To this end, the federal and provincial governments should seek to standardize regulations in all sectors to as great an extent as possible.

Regulatory interventions should be designed to have minimal negative effects on the functioning of Canadian markets and should not be used to inhibit the free movement of goods, services, capital and individuals across Canada. (p. 119)

FOREWORD

For over 115 years, while Canada as a nation has grown and prospered, regional economic disparities have persisted. Because these disparities weaken the fabric of Canada's economic unity, waste valuable resources, and cause hardship and misery for many Canadians, they have from earliest times been a matter of national concern. Some progress has been made in alleviating these disparities, and many lessons have been learned. But regional differences remain, and the government must continue to be engaged if each region of Canada is to develop to its full economic potential.

Until recently, the government's commitment to the promotion of regional economic development was manifestly evident in the Department of Regional Economic Expansion. This is no longer the case. On January 12, 1982, the government of Canada announced significant changes in both its internal structure and its policies with respect to industrial development. Among these changes, the most significant were those affecting the least developed regions of Canada. The Department of Regional Economic Expansion was eliminated, and the principal instruments that have been used to encourage development in the least prosperous regions, the General Development Agreements, are to be allowed to expire.

These changes came at a time when this Committee was deeply immersed in the preparation of a report on just this subject — government policies and regional disparities. At first glance, we feared that any report would be redundant in light of the major changes. But we came to appreciate that the opposite was in fact the case. The government's changes have created a situation of uncertainty, and the elimination of the ministry responsible for promoting regional development has raised questions regarding the government's continuing commitment to this goal.

Up to the time of going to press, there had been no major statements regarding regional development policy other than the initial announcement. This silence has left a void, a void with respect to both the extent of the government's commitment to the amelioration of regional disparities through economic development and the policies and structures for dealing with the needs of the less developed regions. The Committee believes that this void must be filled and regards this report as a contribution to this process. Rather than making our report redundant, the government's announcement has increased the need for such work.

The Committee has found its inquiry into the subject of regional disparities both challenging and frustrating — challenging because regional disparities are so manifestly a national problem that needs to be addressed, frustrating

because testimony has made it evident that there are no solutions waiting to be discovered. Initially we began our work with a review of the Department of Regional Economic Development. But it soon became apparent that its activities represented only a small fraction of the federal impact on regional disparities. This led us to conclude that we had to widen our perspective and review the whole range of federal activities that impinge on regional development.

In the course of this lengthy inquiry, we have been reinforced in our conviction that the government must not turn its back on the persistent problem represented by disparities in the levels of development in regions across the country. It must remain a priority concern of governments, both federal and provincial. From this standpoint, the federal government's silence since its reorganization of January 1982 is deeply troubling to us, and we shall be pressing after a reasonable interval for an accounting.

We have also discovered that there is no philosopher's stone, that we can offer no simple recommendations to overcome the problems of a century. The challenge from the politician's perspective is that there are no easy answers that can bring quick solutions and political credit. On the contrary, this is a policy area that requires steadiness and a long term outlook, a spirit of co-operation between the two levels of government in Canada, and public awareness that the problem will never be completely overcome. This report is to be looked at in this light — an attempt to identify the dimensions of the problem and to suggest principles and approaches to guide the actions of governments and citizens alike.

SECTION ONE

THE PROBLEM AND THE APPROACH

In recent years, the issue of regional disparities and the need for sound regional economic development have moved much higher on the national agenda. This increase in prominence and importance is natural and desirable, because the continued economic development and political cohesion of Canada now require that all Canadians — including individuals, businesses, labour groups, non-profit organizations and governments — learn to deal more effectively with the problems and opportunities created by the regional diversity and wealth of this country.

The issues are not new; marked economic disparities among and within our regions have existed since Confederation. To some extent, as when the replacement of wood by steel in shipbuilding adversely affected the Maritime provinces, or wherever disparity appeared clearly linked to resources or to other geological or geographical disadvantages, these disparities were accepted as due to natural causes about which governments could do only a limited amount. Nevertheless, there was from earliest times some recognition of a need to help disadvantaged regions. The pattern of compensation for and efforts to reduce the causes of disparities that evolved was greatly enhanced in the post-World War II period by such developments as tax equalization payments, federal-provincial cost sharing, regional development programs, and other intergovernmental and personal transfer payments. But the disparities of economic development and their effects on the welfare of individual Canadians remain.

Despite the tenacity of this problem, this Committee is not prepared to accept profound regional economic disparities as inevitable. We believe governments can act to reduce both existing disparities and threatening new ones by exploiting more effectively the full economic potential of all regions.

This first section of the report establishes our understanding of the nature of the Canadian regional problem and sets out the basic principles that we believe should guide policymakers. Our emphasis is on the development of regions rather than the palliation of disparities. This is not something that governments alone can accomplish. The contributions of other sectors of

society are vitally necessary. But governments are clearly under the gun to produce a more creative and sustained response to regional disparity than they have done in the past. What they must do, we believe, is shift their emphasis to the more effective activation of the factors of potential development — notably the human, natural resource, and capital factors — present in each region.

CHAPTER 1

DISPARITIES AND DEVELOPMENT

Every country in the world is plagued with regional disparities — the tendency of some regions to lag far behind others in terms of economic development and prosperity. In the loose, pluralistic Canadian federation this problem is particularly significant. Indeed, such is the importance attached to reducing regional disparities that our new constitution contains a section devoted to the subject under the heading Equalization and Regional Disparities:

> *... Parliament and the legislatures, together with the government of Canada and the provincial governments are committed to*
>
> *(a) promoting equal opportunities for the well-being of Canadians;*
>
> *(b) furthering economic development to reduce disparity in opportunities; and*
>
> *(c) providing essential public services of reasonable quality to all Canadians.*[1]

But this constitutional commitment is only a statement of good intentions. Its realization requires positive action. This report is presented as our contribution to achieving the constitutional goals and, specifically, to the goal of "furthering economic development to reduce disparity in opportunities", which we feel points in the right direction but needs considerable elaboration.

A Problem of Definition

The problem begins with the very word 'region'. In Canada, the word is normally used in one of two senses: Canadians speak of the four or five dominant regions of the country — the Atlantic region, the Prairies and so on — or they use the term when referring to the ten provinces and the two northern territories. But in dealing with the problems of regional disparities, these meanings are inappropriate and misleading.

[1] The Constitution Act, 1981, Part III, 36(1).

Within each province there are areas of economic vitality, strength and potential. These areas are in a position to benefit from ongoing national programs and are most often associated with the more populous urban areas. But within each province there are other areas, often geographically large, of lesser economic prosperity, underdevelopment, unexploited resources, and unemployment and poverty.

The word 'region' has many meanings and various applications. But this Committee's specific concerns are with those identifiable regions across the country in which economic development has lagged. These regions within the boundaries of all provinces, even the richest, require special policies and assistance if they are to escape their present state of economic stagnation.

The Committee considers this a most important concept from which many of the recommendations in this report flow. It frees policy makers from the concern about the differences in wealth between the major regions of Canada and, more importantly, between the provinces. It means that all provinces have a stake in regional development and that the federal and provincial governments have very similar objectives in the alleviation of regional disparities.

A central conclusion of this report is that all provinces of Canada contain areas of relatively prosperous economic development and areas of economic distress. Therefore all provinces, whether wealthy or not, have a stake in the alleviation of regional disparities. It follows from this that the federal government's concern should be focused less on the differences between the provinces (and indeed, the major regions of Canada) and more on the development of the lagging areas within each province. Viewed in this way, the federal and provincial governments have similar objectives in regional development.

Why It Matters

Canadian economic development is a complex subject, one in which a large number of important issues command the attention of Canadians in general and of legislators in particular. In dealing with these issues, Canadians must decide which are of greatest importance and which of lesser urgency, and resources must be allocated accordingly.

Regional disparity is unquestionably one of these issues. We felt it necessary to attempt to ascertain its relative importance. To do so, we had first to understand why Canadians should be concerned by the existence of significant regional disparities.

Some forms of disparity are not a cause for concern. For example, Canadians are not greatly perturbed by fairly wide variations in personal economic well-being. Governments endeavour through the social welfare system to make it possible for people to get by, if not to thrive. Nevertheless, in any given city block, office or factory, some individuals earn considerably more income than others; this is recognized and usually accepted. Yet income and other regional disparities of the kind that have been part of Canada since Confederation (and which persist in every industralized country) are increas-

ingly considered unacceptable.[2] During the course of our hearings we heard a number of witnesses attempt to explain why this is so.

Some witnesses suggested that regional economic disparities perpetuated "unequal opportunities" among Canadians. The C.D.Howe Research Institute argued that "the economic situation in a region should not be allowed to deteriorate to the point where relative economic benefits and opportunities are no longer sufficiently attractive to sustain a viable population base". (4-30-8A:2)[3] Others claimed that disparities should be fought because they stem from past government policies designed to foster growth in central Canada. Premier Hatfield of New Brunswick told the Committee that "programs like DREE, equalization, and so on are almost penalties imposed on the taxpayers of the wealthier provinces, because of the bad policies or the policies that favoured them years ago, and still do." (1-32-18:22) More practically, some witnesses viewed the efforts to reduce regional disparities as essential elements of a strategy to improve overall national economic growth. Professor Ben Higgins maintained that "... reducing regional gaps is not something to be sought only on grounds of social justice or political expediency, but because reduction of regional disparities will contribute to the achievement of virtually all objectives of national economic policy, including that of reducing inflation and unemployment". (4-30-6:6)

Still others, including the former Minister of DREE, the Honourable Marcel Lessard, argued that regional disparities could not be left unresolved if Canada is to remain united. "...[T]he fundamental objective of national unity requires that all regions of Canada possess enough economic activity to provide reasonable opportunities and decent levels of public services for all Canadians." (3-30-3A:4)

All these arguments have some degree of validity. Regional disparities do create unequal opportunities among Canadians in terms of education, social facilities, career choices, social development. Disparities strain the fabric of national unity and create feelings of inequity in the less developed regions. Disparities represent a waste of Canadian natural and human resources. And because Canadians strive through transfer programs to alleviate the hardships caused by disparities, the economic development and the wealth of other parts of Canada is eroded.

For all these reasons, Canada cannot allow disparities to continue to the same extent as at present. However, this conclusion needs qualification:

- Disparities cannot be reduced just by pouring more money into the less developed regions. Such transfers may simply serve to reinforce the status quo without ensuring the real changes needed to remedy the existing problems.
- Efforts to reduce disparities should not place too onerous demands on the stronger parts of the Canadian economy. Even the healthiest sectors and

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[2] Appendices A and B contain a brief assessment of the scope of disparities in terms of incomes and employment and a collection of statistical indicators of disparities.

[3] The numbers refer to the session, the parliamentary number, the proceeding of the Committee, and the page number. For example, 3-30-3:5 refers to the third session of the thirtieth Parliament, proceedings of Committee number 3, page 5.

regions of Canada must compete in international markets, and there are limits to what the country can afford in order to build up less well-developed regions.

- Efforts to relieve the unfortunate effects of regional disparities must be based on the sound economic development of the least developed regions. Sound development implies the creation of industries that are ultimately competitive within Canada and internationally, that provide a range of good jobs on a stable basis, and that do not require ongoing government assistance. It also means the creation of an atmosphere in which development can continue apace with the rest of Canada and the world.

In short, development means making the most of the economic potential of all the regions of Canada. If this can be done, the government will have fulfilled its commitments with regard to Canadian regional development, and the problems of disparities across this country will be greatly reduced. But this does not mean that all differences in incomes or other economic indicators will disappear. Natural and inevitable differences of the kind we commonly accept within our communities are bound to persist, reflecting variations in the allocation of natural resources, in the personal choices of individuals, and in the composition of the labour force. Indeed, the complete elimination of all disparities should not be a goal of economic policy. There are some localities and regions so remote or underendowed that no amount of stimulus could generate sound economic development. In such cases, there is probably no alternative to social welfare programs to reduce individual hardship. It would be counterproductive to believe that forced and artificial economic projects can eliminate all disparities. Endeavours based on this false assumption would misdirect resources and could harm development elsewhere.

A major thrust of Canadian regional policy has been toward minimizing disparities. By contrast with the United States, income redistribution and the alleviation of interpersonal differences have had higher priority in Canada. The result has been to impede the adjustment of costs in the lagging regions that would encourage investment in development, which is the surest way to reduce disparities. The most effective way to attack regional disparities is to define the economic potential of the less developed regions and to encourage development to that potential.

The Road to Development

Economic development, especially that of small regions, is not a topic on which the economics profession, public servants, politicians and businessmen have reached consensus. Moreover, the prospects for consensus in the near future do not seem great. As Sylvia Ostry, then Chairman of the Economic Council of Canada acknowledged, "neither the [Economic] Council nor any other research organization to my knowledge has a grasp and understanding of why and to what extent differences in regional growth rates occur". (4-30-7A:7)

In 1968, Carleton University economics professor T.N. Brewis introduced his text on regional economic policies in Canada by remarking, "There has

been in recent years a notable growth in the study of regional economic problems."[4] Ten years later, Professor N.H. Lithwick, also of Carleton, introduced his publication on the same subject in a different tone: "This volume is the result of the concern of the editor over the absence of rigorous thinking about regional issues in Canada."[5] Like some regions, it seems this topic has fallen on hard times.

This is all the more disturbing because, far from being a mature field of study with well-established theories and a substantial body of empirically tested 'facts', regional development theory is, at best, only partially formed. In particular, the theoretical explanations we heard during the course of our examination seem to lack the ability to explain adequately, if at all, the existing pattern of regional development in Canada. And few of our witnesses reached anything resembling general agreement as to the causes of regional, or for that matter national economic growth.

During the course of our inquiry, we were impressed by the fact that broadly similar patterns of economic development have occurred in Canada and the United States. Over much of this century, development proceeded most slowly in the northeastern states and in the neighbouring Atlantic provinces. Until recently, the states and provinces in the Great Lakes area and to the east of the Lakes experienced the highest growth rates; latterly, the western regions of both countries have been centres of growth. These similar experiences in two countries following different policies and with distinctive histories suggest that economic forces are a major factor in determining the overall pattern of development. But this does not identify the factors at work, nor does it explain the significant variations in development within these broad regions.

Witnesses advanced a number of theories concerning regional development. Some believed that development depended on growth poles, that is, clusters of mutually supporting industries in an urban area of sufficient size to support broad ranging activities. Others took a Keynesian view of development, looking to the need to promote aggregate demand for a region's products. Still others looked to networks of interactions among regions to explain growth and the lack thereof. Even a monetarist or, more precisely, a gold standard based theory was put forward, which highlighted the importance of a region's payments balance with other regions. None of the theories was entirely convincing or completely applicable to Canada. Growth poles, for example, represent an interesting theory because, given the right meld of industries, development should proceed apace. But this requires that policy makers know the right blend for a particular region and can put it together. Moreover, this theory may not fit large parts of Canada. Development relationships that have allowed growth centres to work well in Europe and Japan may not prevail in many Canadian provinces where populations are smaller than that of medium sized cities in other parts of the world.

The diverse theories of development are not necessarily wrong in their own right, nor are they mutually contradictory. Each contains elements important

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[4] T. N. Brewis, *Regional Economic Policies in Canada* (Toronto: Macmillan of Canada, 1967).

[5] N. H. Lithwick, *Regional Economic Policy: The Canadian Experience* (Toronto: McGraw-Hill Ryerson, 1978).

for effective regional economic development. The concept of growth centres tells us of the importance of mutually supporting industries and of the demands for a region's products. The Committee has tried to develop a synthesis of these lessons, a synthesis that does not fall neatly within any simple rubric but has implications as diverse as the Canadian economy itself. We should note that the absence of consensus among our witnesses is not attributable to intellectual failure, but rather reflects the wide range of factors that can and have inhibited regional development in Canada.

In many, if not most of the less developed regions, a combination of factors is responsible for poor economic growth. This suggests that the problems and opportunities currently facing each region are different, and that the solutions must be individually tailored to match the distinct needs of each region.

CHAPTER 2

GOALS AND STRATEGIES

Defining the ultimate goal for policy — the creation of self-sustaining growth within those regions of Canada currently bereft of such momentum — provides little guidance for policy makers about how to achieve this end. In particular, the questions 'How can this self-sustaining growth momentum be achieved?' and 'What government policies are required to achieve this end?' must be addressed. In attempting to answer these questions, the Committee has been guided by the firm belief that government policies must be in harmony with the competitive structure of the Canadian and international economies, and that the free market must ultimately be the basis of economic growth and development. In short, the development of each region of Canada should be based on its comparative advantages and should ensure that the region reaches its full economic potential.

'Full economic potential' is the economist's shorthand for the highest level of sustainable economic activity that a region or country can attain given its underlying resources. The choice of this objective carries the implication that each region is unique, and that it is beyond the government's power to make all regions equal, that is, fully to eliminate disparities. Even with full development, differences in incomes and rates of unemployment will remain across Canada, just as they exist within cities. These differences will reflect the real variations in resources distribution across Canada and the individual choices of Canadians as to where they will live and how they will work.

Comparative advantage, in contrast to economic potential, is not shorthand. It means that economic development in a region must be based on those activities a region can do best. This may seem obvious, but it has several implications:

- Each region need not be a replica of every other region. The Canadian and world economies depend on trade, and trade is, after all, a reflection of one area doing something better than others. Each region should do what it is most able to do and trade for products it is less adapted to produce.

- Comparative advantage suggests that development should be focused in some way so that those facets of a region that offer the best returns can develop. This requires that policies not interfere with the evolution of those sectors and that resources not be drawn from areas of comparative advan-

tage into sectors that, unaided, will ultimately be unable to stand the tests of the marketplace.

- Comparative advantage can only be determined in the marketplace. A reliance on this concept should reduce the tendency of governments to try to pick winners based on non-market criteria such as the purported superiority of high technology industries over stable and productive but more pedestrian enterprises.

On Comparative Advantage

Because there is much misunderstanding of the term comparative advantage, it is useful to try to give it operational meaning for regional development policies in the 1980s.

Exploiting comparative advantage means concentrating on what one does best or 'least worst'. It does not invariably mean doing what one does better than anybody else. A doctor who learned to type may be a somewhat better typist than his secretary, but the principle of comparative advantage recommends that he stick to doctoring because he can earn more per hour as a doctor than as a typist.

In terms of practical impact on regional development policy, the principle of comparative advantage requires the policy maker to approach each region or sub-region with a respect for its identity and particularities and without excessively broad, general preconceptions. For example, he should avoid the preconception that manufacturing industry is necessarily 'better' than primary resource industry (or vice versa) or that service industry is 'better' or 'worse' than either of the others. Further processing of a region's natural resources may not necessarily be the key to its economic development. High-tech industry is not necessarily better than other industry, nor should disadvantaged regions specialize invariably in low-wage industry. A megaproject in Region A will not necessarily have a major developmental impact on Region B. That depends on what Region B has to offer relative to competing suppliers. A region's optimal developmental path will be linked to that of other regions, but may be different from any of them.

The spirit of comparative advantage is fundamentally the spirit of the open mind — the ability to see that for each region there is a different set of problems and different solutions. The regional diversity of Canada and the resulting regional comparative advantages should be seen less as problems than as the very basis for the specialization and division of labour that Adam Smith identified as a principal foundation for the wealth of nations and regions.

This is the basis of our approach to regional disparities and regional development. Governments should base their policies on efforts to assist every region of Canada to realize its full economic potential based on the market principle of comparative advantage. In order to satisfy the criterion that the economic growth momentum in each region be self-sustaining, it is also important that governments establish overall economic climates in which the market forces that propel our economy can operate most efficiently. This, we

hasten to add, is not a call for minimal government involvement in the economy. Rather, because the history of Canada is based on the propitious co-operation of government, labour and private enterprise, we believe that governments must play significant roles in the economy. But, most important, they must play the right roles.

In particular, we must again caution that our advocacy of comparative advantage is not a recommendation that governments try to determine *a priori* which industries or firms have a comparative advantage and then support them strongly. The history of government intervention in the economy illustrates all too clearly that when governments try to pick winners, the results are far too often disappointing, if not disastrous. Another approach is needed.

The Committee recommends that development be based on the principle of comparative advantage so that each region does what it is most able to do and trades for products and services it is less adapted to supply.

The Role of Government: The Positive Approach

Our emphasis and approach is to identify means through which governments can facilitate the workings of the marketplace and thereby promote regional economic development. Throughout our deliberations, one point became clear. Economic development requires changes in our economy; if changes are not forthcoming, development will be stymied and progress stalled.

Through a variety of policy means, governments can play major roles in precipitating certain changes, reducing the roadblocks to other changes, and providing an environment in which the costs of change are minimized. But governments should not set out to provoke change in one explicit direction; rather they should enable changes to occur 'naturally' according to the economic signals of the marketplace.

We can illustrate the basic nature of this orientation by considering a theme repeated by several of the witnesses who appeared before us and put most explictly by Mr. James Fleck, the former deputy minister of Industry and Tourism in Ontario: "...economic development and productivity improvement should be preferred to income gap closing". (4-30-9:7)

The point, made often and forcefully, is that existing government initiatives, and particularly the transfer system, perpetuate and reinforce regional development patterns. In particular, it was suggested that transfers from the federal government to provincial governments enable these governments to hire more employees at higher wages than they could otherwise, thereby raising the wage costs of private sector employers. Hence the competitive position of private sector employers in these regions is reduced below what it might otherwise have been, and development is prejudiced. Other policies, such as provincial minimum wage legislation and the federal government's nation-wide public service wage policies are also said to maintain inappropriate wages and salaries in the less developed regions. As a result, it was argued, the natural economic adjustment mechanisms that would work to reduce disparity are blocked, and development does not take place.

The adjustment mechanism argument hinges on the power of pure economic signals, such as lower real wages, to cause economic adjustment to occur. It predicts that lower real wages in a particular region will result in two economic flows. First, labour is expected to migrate from the low wage region in search of better paying jobs elsewhere. Second, investors seeing a slightly less expensive source of labour are expected to enter the region, thus raising productivity and allowing higher wages to be paid.

Other witnesses contended, however, that the adjustment mechanism approach ignores what really occurs when development takes place. On a theoretical basis, they argue that strong economic development requires a certain economic momentum. Their prediction is that if a region starts to decline, its best educated, creative, most productive individuals leave, reducing the potential of the region. Investors, noting the decline, are wary of further investments and tend to avoid the region despite any apparent wage advantages. Governments in the declining region are less able to provide necessary economic infrastructure and to attract investment. Failure begets failure, and a decline, once begun, perpetuates itself. Proponents of this view pointed to the many areas of the world in which, despite low wages and the like, disparities have persisted for decades, and in some areas for centuries, while development proceeds apace in neighbouring regions.

The policy prescription flowing from the 'development momentum' argument is for government to enter the region and attempt to reverse the momentum of decline so as to generate a 'growth momentum'. Through spending and other policies, including those designed to attract private capital to the region, it is argued, the area will eventually be able to sustain this growth trend, and disparities will be reduced.

The two approaches appear to be mutually contradictory; they present quite different theoretical images of how the world operates. But reality is different. Both contain valuable lessons for Canadian policy makers. Standard market mechanisms, as postulated in the adjustment approach, are certainly important. They should serve to direct the changes necessary for development, and policies should be designed to interfere as little as possible with the operation of these forces. Nevertheless, the momentum of decline that has taken hold in certain regions must be reversed if the process of positive change is to begin and if disparities are to be reduced sufficiently quickly and thoroughly. In short, governments must use the policies at their command judiciously to avoid negating the effects of natural economic adjustment mechanisms while turning the tide of decline.

This is the basis of the two-sided positive approach to adjustment and development that we advocate in subsequent chapters of this report. We are not alone in advocating such an approach. The Organization for Economic Cooperation and Development (OECD) has for some time been promoting a very general approach to government involvement in economic development under the title 'Positive Adjustment Policies'. According to the OECD, the positive approach to development would be oriented to "the avoidance and phasing out of domestic policies which inhibit or retard adjustment to lasting changes in

product and factor markets".[1] Thus where government intervention is justified, as the OECD agrees it is in order to reduce regional disparities, the OECD believes it should assist adjustment to new conditions "relying as much as possible on market forces".

Medicine provides an analogy to the two-part approach we are advocating. The human body possesses a considerable ability to heal itself. Nevertheless, at times of severe illness, or when the nature of the problem defies the body's recuperative powers, the services of a doctor and medicine are essential to restore well-being in conjunction with the body's natural recuperative powers. So it is with the economy. The natural adjustment mechanisms — the self-healing facility of the economy — do act to reduce economic ailments, but occasions will arise when the judicious application of some economic medicines are essential to create the basis for recovery and to allow the recuperative mechanism to work. And as in medicine, a bad diagnosis can be deadly; the correct diagnosis must be made and prescription issued if the malady is to be overcome.

The governments of Canada have crucial roles to play on both sides of this development approach. With respect to market forces, governments must ensure that the rules and regulations governing economic life in Canada are conducive to the efficient functioning of the market. This means that policies with respect to competition must try to maintain free and fair markets. And it means that when governments interfere with market functioning, such as when transfers to individuals and other governments are involved, or when governments regulate economic activity in order to achieve other goals such as environmental protection and market safety, they must consider carefully their effects on market efficiency. In the same vein, through their ability to direct their own programs essential to economic development, and through their ability to influence the course of private sector activity, governments can significantly accelerate the pace of regional growth.

We would be remiss if we failed to emphasize that the economic development of the least developed regions in Canada will proceed more swiftly in an atmosphere that also favours strong economic growth in other regions. Thus the general goals of a stable economic environment for growth with reduced inflation are tied intrinsically to the goals of effective regional development. In the economic environment in which Canada is mired, with continuing inflation despite widespread uncertainty and economic slack, any growth, whether in the strongest or weakest regions, will be difficult.

Government intervention is an essential element of regional development, but this intervention should interfere as little as possible with the operation of natural market forces and, indeed, should encourage them.

The Need to Persist

There was one point on which all witnesses, from the sternest critics of government policies to the officials who developed and applied those policies,

[1] OECD, *The Case for Positive Adjustment Policies, A Compendium of OECD Documents* (Paris: 1979), p. iv.

were agreed: regional development cannot be achieved speedily. There are no quick fixes. As Marcel Lessard, a former Minister of DREE, told the Committee, "What is needed is long, far-reaching structural change"(3-30-3A:36), and this requires sustained policies, steadily applied and consistently funded.

Such an approach ill fits the style of modern democratic governments, elected every few years and under constant pressure to demonstrate results. Canada has not avoided this dilemma. It becomes difficult to sustain policies and organizational structures that do not produce quick results, particularly in times of budgetary restraint. Ministers find it hard to defend policies whose success cannot be easily and convincingly demonstrated, and they may be tempted themselves to press for change as the best way to meet criticism from political opponents and critics.

There is agreement in Canada that regional disparities represent a serious national problem, but this is about as far as the consensus goes. The Committee believes that, as a minimum, an effort must be made to widen the consensus in two basic respects. First, there must be a commitment by governments in Canada to work directly and steadily to promote the economic development of the less developed regions of Canada. And secondly, there must be general acceptance of the perception that regional development can only be achieved slowly, that it requires significant resources, and that policies must be steadily pursued.

We devote the remainder of this report to the specific question of what a positive orientation implies for government economic development policy in the future and for the structure of government operations.

Regional development progresses slowly because it requires the weaker regions to grow faster than the national economy. It can only be achieved if the appropriate policies are steadily pursued and consistently funded. This causes problems in a democratic society that seeks quick results.

SECTION TWO

THE ROLES OF GOVERNMENT

In this section, we focus on those activities of governments that constitute a direct contribution to the reduction of regional underdevelopment in Canada. The first chapter of the section looks at activities that support and underpin economic growth in the regions. The second chapter is more specific and considers matters related to the interactions between government and industry, including the potential of megaprojects. In the third chapter we examine how governments can make most appropriate use of the means available to them to promote industrial growth in the less developed regions.

CHAPTER 3

LAYING THE FOUNDATIONS

A basic measure of the level of development of any country or region and a determinant of its economic potential is its infrastructure. Infrastructure is a rather nebulous concept representing the entire set of social assets that are essential for the production and distribution of goods and services and for the preservation of the well-being of individuals. It includes roads and railways, communications systems and pipelines, schools and hospitals, and water systems and sewage treatment plants.

In Canada, the development and maintenance of the infrastructure has always been accomplished through an alliance of federal, provincial and local governments, with business and quasi-governmental organizations playing major roles. The early years of Canada's history were literally years of co-operative nation-building. Canals were created, roadways replaced paths, and railways joined all parts of the country. These ventures, and others like them, demonstrated the need for Confederation and strong governments, for it was only through governmental actions that these nation-building activities could be accomplished.

Since the early years, Canada has become an advanced and well-serviced nation with a network of infrastructure that supports industry and contributes to a high standard of living. At this stage it is difficult to picture the country without a trans-Canada highway, a St. Lawrence Seaway, or airports. All are integral components of the nation, as vital to the country's continued existence as its skilled labour force, factories and natural resources.

Not surprisingly, the most prosperous parts of the country are the best served by these government-sponsored services. In the past, these areas usually had the necessary financial strength and offered the best investment choices for infrastructure development. Moreover, they had the population needed to generate political support. Once these early infrastructure decisions had been taken, the areas involved benefited, while other regions often suffered from the same choices. For example, the construction of the trans-Canada rail system was critical to the success of western agriculture, while the building of the St. Lawrence Seaway had a negative effect on ports in the Maritime provinces.

Infrastructure development is clearly an essential component of economic development and it can, if wisely employed, lead and focus economic growth.

The development strategy for the less developed regions must include infrastructure.

Basic Concerns

The Committee has been impressed by the improvements brought to the system of public services during the post-war years in all regions of Canada. This has been the most notable achievement of the period in terms of regional development. In the least developed regions, particularly since the creation of the General Development Agreements (GDAs), the quality of the infrastructure has improved considerably. However, there remain parts of Canada in which basic services are still inadequate. Improvements in the transportation system in some areas, for example, could encourage industrial development and lead to better exploitation of human and natural resources.

Canada faces a future in which the potential of governments to provide the facilities needed to sustain Canadian prosperity will be strained. Canada cannot afford to build roads that go nowhere, airports that are grossly underemployed or industrial parks that are little more than serviced vacant lots. Careful planning is needed. In this, of course, it is important that the effects of the projects themselves are included and that the planning is complete. A new highway may prove useless if industry cannot locate in an area because of inadequate air services. The entire picture must be viewed to gain an understanding of the scope of the requirements for future self-sustained economic development.

Decisions regarding infrastructure therefore must be taken after full consultation and in close co-operation with provincial authorities. Since infrastructure provides the underpinning to regional development, decisions regarding new or improved roads, airports, sewage systems or industrial parks must be consistent with the development plans of both levels of government. Only in such circumstances can they provide effective impetus to regional development.

The basis for infrastructure investments should be the impetus to future growth that such development can provide. The Committee received testimony suggesting that some infrastructure projects have been undertaken with inadequate analysis of the future potential of the regions in which they were located. It seemed as though in some instances too much weight might have been given to political calculations; in others, short term make-work considerations might have counted for too much. These risks are inherent in any political system, and especially in a federal state where competition between the two levels of government is present. The Committee is convinced that close co-operation between the two levels of government is necessary to ensure that infrastructure decisions are based on sound economic analysis and not distorted by short term political considerations. Indeed, consultations should be even wider. Private sector and local government input must be sought and considered in planning future infrastructure development.

The General Development Agreements require an assessment of the potential of a region, research into the most effective ways to reach that potential, and they involve each provincial government in planning, delivery

and cost sharing. They are the recognition of our basic principle that all provinces contain areas of relatively prosperous economic development and areas of economic distress, and that the federal and provincial governments have the same objective of encouraging development in the lagging areas. The GDAs co-ordinate the policies of the federal and provincial governments and tend to make federal sectoral departments more aware of their regional development obligations. Additionally, the GDAs embody a longer term strategy and therefore impose a discipline on both levels of government that is essential to the achievement of a regional development policy.

It is necessary that infrastructure decisions be taken within the framework provided by intergovernmental agreements. The Committee considers that the GDAs have provided during the last decade an excellent structure within which to elaborate decisions on new infrastructure. For this reason, among others, we regret the decision to allow the GDAs to lapse and urge that it be reconsidered.

The most effective area for government intervention in the field of regional development is in the maintenance and improvement of the infrastructure. To be effective, decisions regarding infrastructure must be taken after full consultation and in close co-operation with provincial authorities. The General Development Agreements with the provinces have provided an excellent framework for planning and development of new infrastructure, and the decision to allow the General Development Agreements to lapse should be reconsidered.

The Soft Infrastructure

Computer scientists employ the term 'software' to indicate the programming components of the computer — the instructions or intelligence given to the machine to make it function — as distinguished from the machine itself, the 'hardware'. Borrowing these terms, we have observed that governments have typically focused on the hardware of infrastructure development. The software — the intellectual aspects necessary for development — has often been neglected, at least until recently.

Increasingly, however, the need to broaden the government perspective on development into the soft areas has become apparent. More emphasis is now being placed on manpower and management training and re-training programs, on government-sponsored research and development, and on the need for government-assisted marketing efforts where international markets are concerned. We believe that such endeavours by government are just as important as the traditional supply of hard infrastructure, if not more so.

a) Manpower Training and Re-training

From the point of view of the individual, inadequate manpower training represents a door closed to new opportunities. It means that jobs, once lost, may be difficult to reacquire if new skills are needed. It means lower wages and a greyer future. From the perspective of business, the training of individuals is also vitally important. Without skilled tradesmen, business cannot expand, productivity is lower, and the costs of doing business are increased. In short, for all of Canada, adequate manpower training programs, whether conducted by

governments alone, through private enterprise with government assistance, or through government-industry co-operation, are essential.

Within the least developed regions, however, the need is even more acute. In these regions, a history of prolonged unemployment and low-skilled jobs often leaves an undertrained and inexperienced labour force. Individuals with experience in a specific job are often ill-equipped for different employment, which may be necessary in a changing economy. Employers and investors, facing the choice of working with an undertrained and inexperienced labour force or going elsewhere with their money, too often make the latter choice.

Manpower training is of central importance, and intergovernmental agreements should specify the role and scope of manpower training in regional development. The Committee proposed specific solutions to manpower training problems in our comprehensive 1976 report on Canada Manpower, and these solutions are as valid today as they were then.

The Committee considers it important that training not be limited to skilled and semi-skilled trades but should be extended to include the management functions so important to modern business. Managers in the least developed regions are often relatively isolated from the interaction and information available to their counterparts in the more developed areas. Moreover, because of the relative isolation and the special problems involved in operating in a depressed area, these managers may have needs for information and ideas quite different from their counterparts in other areas. While the government cannot pretend to be able to teach private sector managers how to manage, it can endeavour to make it possible for those managers to acquire the skills and training necessary to enable them to cope better. The Federal Business Development Bank (FBDB), an agency of the federal government, offers management training programs. We believe this to be a valuable function that should be expanded within or beyond the ambit of the FBDB.

b) Building Markets

Even the most efficient production process is useless unless its output is marketed profitably. The government of Canada has already recognized this fact and established a number of mechanisms to facilitate the international merchandising of Canadian goods. The recent emphasis on trade promotion — evidenced by the merger of the trade component of the Department of Industry, Trade and Commerce with External Affairs — illustrates the further recognition of the role government can play in assisting in the marketing of Canadian goods.

We believe that this recognition should be extended to the least developed regions of Canada. These regions are often relatively sparsely populated and are dependent on sometimes distant markets. Producers in these regions face difficulties making headway in larger Canadian markets analagous to those faced by other Canadian producers in international markets.

To assist companies in less developed regions, we propose that the new Department of Regional Industrial Expansion offer special assistance in marketing. Firms could be encouraged and assisted to participate in national and even international trade fairs and shows. The regional offices of the Trade

Commissioner Service could be asked to pay special attention to the export potential of the less developed regions.

Ultimately, of course, it is Canadian firms and individuals who must get out and sell Canadian goods and services. Marketing is a specialized function, one with its own cadre of professionals. We suggest that officers of firms in the less developed regions should be assisted financially to participate in marketing training programs.

Training of people has become one of the most important elements in the provision of infrastructure. This training should be directed to the skills required in a modern economy that is based on technological and resource development, and it should include training in management and marketing to assist the less developed regions to realize their potential.

c) Research and Development

Just as it has assisted in international marketing, the government has also encouraged research and development activities in support of Canadian industry. These efforts have provided many benefits in areas as diverse as agriculture, medicine, microelectronic technology and mining.

For industries in the least developed regions, however, we feel special efforts are required. These industries often face special problems and conditions by reason of climate, economy or geography that have implications for production processes. Techniques that work well in southern Ontario may be useless in northern Manitoba or the Atlantic provinces. In subsequent sections of this report we discuss special incentives to assist some firms in the least developed regions to conduct research and development and make suggestions for improving the spread of new technology. In addition, however, we feel that there is a need for federal government-sponsored efforts — whether in federal research stations, through universities, or through aid to private sector research — to account, through research and development, for the special difficulties inhibiting the full exploitation of Canada's resources in the least developed regions. In these activities it will be essential to ensure that the people affected contribute to the research.

The government's contribution to promoting regional development through the provision of infrastructure should include the support of research to overcome problems and to increase the efficiency of production in the least developed regions.

CHAPTER 4

GOVERNMENT WITH INDUSTRY

Through a variety of mechanisms, government has become active in the economy beyond the simple provision of hard and soft infrastructure. In this chapter, we consider three aspects of this expanded role:

- the role government can play in helping industry in the least developed regions to improve productivity;
- the government's involvement in megaproject investment; and
- intervention by government through the use of procurement policies.

Productivity and Economic Development

In the post-war period, productivity growth was abundant and apparently readily achieved. As a result, real incomes grew rapidly and prosperity was taken for granted. Then, in the late sixties and early seventies, productivity growth weakened, disappeared and even regressed. The magic, it seemed, had slipped away. Researchers have tried to explain what has happened; they have traced the effects of energy price changes, puzzled over the ruins of labour-management relations, dissected government policies and pondered the mysteries of fifty-year cycles, all with relatively little success. Productivity growth remains an elusive but highly desirable goal.

This Committee has considered some of the special problems of the least developed areas in this regard. Low productivity has been the norm in these regions, and without productivity growth, they will remain areas of great disparity.

This conclusion is central to the theme of this report — regional disparities can only be relieved successfully through effective economic development, which in turn means improved productivity. Two specific elements of the productivity puzzle seem to us to be of particular importance—the diffusion of technology and the pattern of population settlement.

a) Diffusion of Technology

The Economic Council of Canada has argued, "The most important single reason why Canada produces twice as much per capita today as it did a

generation ago is that it uses far more advanced technology today. ... In the technology race, each region runs at about the same speed; but there are persistent leaders and laggards".[1] We share the Council's view.

Technology is one of the key elements of productivity growth in any industrialized nation. It is the result of man's ability to innovate, to find new means to accomplish old ends and new processes to provide new goods and services. Alvin Toffler likens the spread of new technology to a wave.[2] In many ways this is a useful analogy, for technology tends to flow out from an initial disturbance, a new research discovery or process development. Naturally enough, the wave of new technology first strikes those closest to the source, and in Canada this has generally not been the underdeveloped regions. The result has been inevitable; productivity suffers in certain regions simply because technological change is propagated slowly and unevenly across Canada.

The first step in hastening the spread of new technologies must be the dissemination of information about the availability of new technology. In the more densely populated and industrialized regions, information can spread very quickly by word of mouth, through the use of the technology by a competitor, through international contacts and so on. These mechanisms do not function as effectively in the least developed regions, which are often at considerable distance from the trade shows and other formal vehicles used to promote new developments. We believe that something can and should be done to reduce this intrinsic disadvantage that many producers, especially the smaller ones, experience. In particular, the federal government should experiment by offering to assist financially trade and industrial associations to enable them to investigate and disseminate information at the local level regarding new technology as it is employed and developed in other parts of Canada and around the world.

New technology is, however, far from cheap, and cost alone may retard its spread. Accordingly, investments in new technology necessary to increase productivity should continue to qualify for assistance under programs designed to promote development in the designated regions. Research necessary for the development of technology suitable to the special needs of the various regions should also be eligible for special assistance, even if the research and development is not carried out in the region in question.

New technology inevitably brings changes and disruptions to people's jobs and lives and has always been viewed with suspicion. Charlie Chaplin's classic silent movie, *Modern Times*, humorously illustrates the sources and fears generated by rampant, impersonal and, at times, inhuman technological change. Such fear, and the fear that technological gains will reduce jobs, retards the acceptability and spread of technology and can slow productivity growth. Without change, without a willingness and capacity to adapt and evolve, the least developed regions are doomed to economic senility.

While we do not commend a 'progress at any cost' attitude, we do believe that new and better technology must be an integral part of any industrial

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[1] Economic Council of Canada, *Living Together: A Study of Regional Disparities* (Ottawa: Minister of Supply and Services, 1977), pp. 87-88.

[2] A. Toffler, *The Third Wave* (New York: Bantam, 1981).

development in Canada. For this to occur, the fears — real and imagined — of technological growth must be reduced. Manpower re-training, as discussed in the previous chapter, can play an important role, if carefully used, to ensure that the costs of new technology do not prove too high in human terms. To this end the federal and provincial governments should jointly explore means to cushion the effects on individuals and communities of technological change. Job re-training programs, temporary income assistance if necessary, and increased job placement activities should be considered, and concentrated efforts should be made to anticipate the effects of changes in order to avoid being forced to act after the fact.

In addition to a climate favourable to change, better information flows and analyses of problems and potential are necessary to foster innovation. To improve the productivity of the Newfoundland economy, the Economic Council of Canada recommended the establishment of an "advisory council on industry performance that would report each year to the Premier and that would have a broad mandate to monitor, study, report and advise on any aspect relating to the productivity and efficiency in the provincial economy."[3] We concur with this suggestion and believe that it should be introduced across the country.

In co-operation with each provincial government, the Ministry of State for Economic and Regional Development should encourage the establishment of advisory councils on matters relating to provincial productivity and help to fund them. Each council should have a capacity to perform independent research and to conduct useful exchanges with other provincial advisory councils.

b) Residential Patterns

Several witnesses suggested that the urban structures of the less developed regions both reflect and contribute to regional disparities. Economic historians have pointed to the massive waves of urbanization that have accompanied industrial development, particularly in central Canada, as evidence of the importance of urbanization. The Economic Council was so impressed by the correlation between urban concentration and higher productivity that it recommended that government policy encourage urbanization:

> We recommend that, in provinces where incomes are lower than the national average, any existing or future urban strategy give full consideration to the productivity advantages in manufacturing that may be gained by working with rather than against the tendency for population to drift from rural to urban areas and from smaller to medium sized settlements. (Economic Council of Canada, Recommendation 3, *Living Together*) (4-30-7A:23)

This conclusion would seem to be buttressed by the accompanying map and Table 4-1 which show that those provinces with the highest proportion of urban dwellers also have the highest incomes and levels of development, and that the highest incomes are found in cities with the largest populations. While some caution is necessary in interpreting these figures, especially since costs also tend to be higher in large urban centres, these figures suggest that the

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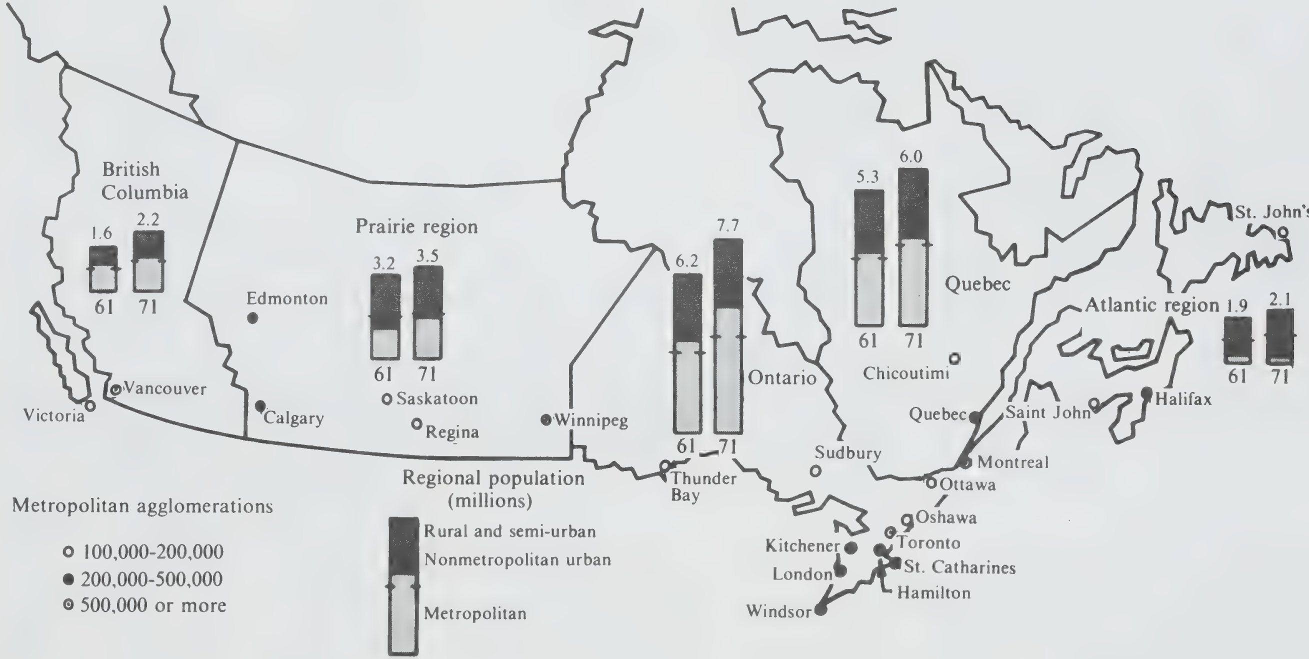
[3] Economic Council of Canada, *Newfoundland: From Dependency to Self-reliance* (Ottawa: Minister of Supply and Services, 1980), p. 162 (Recommendation 9).

Distribution of Population, by Region, 1961 and 1971; Metropolitan Agglomerations, 1971



SOURCE 1961 and 1971 Census of Canada.

Source: *Living Together*, p.124.

Table 4-1
Income[1] per Capita, by Size of Urban Centre and by Region, 1970

	Rural and semi-urban	Size of urban centre (in thousands)							
		5-10	10-25	25-50	50-100	100-200	200-500	500 and over	Regional average
					(Dollars)				
Atlantic region	1,757	2,096	2,314	2,391	2,199	2,226	2,896	—	1,948
Quebec	1,461	2,063	2,224	2,377	2,409	2,805	2,701	2,970	2,489
Ontario	2,599	2,591	2,934	2,749	3,048	3,002	3,171	3,579	3,097
Prairie region	1,763	2,574	2,661	2,652	—	2,760	3,099	2,961	2,453
British Columbia	2,523	2,845	2,875	2,801	—	3,117	—	3,280	3,000
Canada	1,900	2,391	2,606	2,560	2,709	2,805	3,074	3,244	2,700

—Not applicable.
[1] The sum of wages and salaries; interest and dividends; government transfer payments; and farmbusiness, or professional incomes.
Source: Estimates by the Economic Council of Canada, based on the 1971 Census; *Living Together*, p.125.

promotion of increased urbanization and larger cities should be among the steps necessary to reduce regional disparities.

The Committee approached this proposition warily. We believe that it is the fundamental right of Canadians to live where they choose, and that forced urbanization should not constitute an element of the government's efforts to reduce regional disparities. Certainly the type of resettlement program carried out by the Newfoundland government in the 1950s could not be considered an appropriate response in the next decade. Moreover, while some benefits may accrue from 'taking people to jobs', we have doubts about the relative benefits compared with the social and other costs associated with widespread, government-induced disruptions in people's lifestyles and communities.

Nevertheless, governments should not be expected to support communities in perpetuity. Particularly, we do not believe that community conservation is a reasonable goal of regional economic development. Some changes are inevitable and necessary in any country, and Canadians cannot afford to preserve all aspects of their past at any cost if the country is to compete in the international markets of the present and future.

As a people, Canadians have shown themselves to be remarkably flexible and creative in dealing with new opportunities. Some migration and population shifts are bound to occur as economic development proceeds. Some centres will grow in size, others may contract. These changes are unavoidable if Canada as a whole is to prosper. Governments must be prepared to assist through the provision of adequate social and other infrastructure, and through co-operation with the private sector and local governments to ensure that housing stocks and services will be adequate to meet changing needs.

By ensuring that urban facilities are available and that housing will also be prepared, the government can significantly ease and facilitate individuals' relocations and, thus, industrial development. In short, the government should not move people to jobs, but it should enable people to move to jobs.

Developing to Potential

Improving productivity is one of the surest ways to achieve the development of viable industries. The difficulty is that the least developed areas of Canada have the lowest productivity. The developed areas enjoy greater productivity, due to more capital per worker; more intensive use of machinery and equipment; improved education, skills and experience; improved standards of management; and better application of technology.

The less developed areas are trapped in a vicious circle; the role of government is to break the circle. Too often governments have attempted to fulfill this role by minimizing disparities through income and other support programs and by having as their goal the creation of jobs. These initiatives militate against improvements in productivity and thus against development.

The correct role for governments is to improve the productivity of the less developed areas. This is best achieved by defining the potential of the area and putting in place infrastructure and policies that encourage the market economy to develop to that potential through innovation and not just through growth of

what already exists. It is important that the objective be the encouragement of competitive industries that provide productive jobs and not just the provision of jobs.

Productivity is the key to development, and the central role of government should be to encourage the improvement of productivity in the less developed areas. Improved productivity is not achieved by minimizing disparities or by development that has as its main goal the creation of jobs. It is achieved by defining the potential of the area and putting in place infrastructure and policies that encourage the market economy to develop to that potential through competitive industries that provide productive jobs.

Megaprojects

In its November 1981 economic strategy statement, *Economic Development for Canada in the 1980s*, the government asserted that the so-called megaprojects had an important part to play in Canada's future development. These projects could employ thousands of Canadians directly in construction and even more workers indirectly as a result of the need to supply these projects with materiel and services. Table 4-2 (taken from the government's report) identifies the nature and size of major projects it believes could be initiated before the year 2000.

Canada has a history of megaprojects, that is, single projects so large as to create special challenges and opportunities across much of the country. The construction of the trans-continental railways, the canals, the St. Lawrence Seaway, Expo '67, and many more have all placed strains on the economy, but also provided the impetus for future growth.

Despite recent decisions not to proceed immediately with some projects, such as the Alsands project, Canadians still face a future characterized by large scale endeavours. It is therefore not too surprising that the government made special reference to these projects in its November 1981 statement regarding future economic development in Canada. And it is not surprising that many see the megaprojects as the key to Canada's future economic success. There have been diverse claims and suggestions with regard to these projects: that they offer sure-fire solutions to the current economic slowdown; that they can be used to accomplish a variety of social goals; and that they can support the development of a wide variety of internationally competitive industries in Canada through limitations on the provision by foreign producers of machinery, equipment and materials for these projects.

One suggestion of particular concern to the Committee was that these projects would promote regional economic development. This idea appeared, for example in the government's budget paper, *Economic Development for Canada in the 1980s*. There it was suggested that a new Office of Industrial and Regional Benefits would "provide a focal point for the extensive consultation and interaction with the private sector which will be necessary to maximize the industrial and regional benefits for Canada."[4] The government's view

[4] Government of Canada, *Economic Development for Canada in the 1980s* (Ottawa: November 1981), p. 14.

Table 4-2
Summary of Inventory of Major Projects to the Year 2000
(millions of dollars)

Sector	% of Total Expen.	Total	Multi-Provincial or Undetermined	Atlantic	Quebec	Ontario	Manitoba	Sask.	Alberta	B.C.	Yukon/NWT
Conventional Hydro-carbon Exploration & Development	7.8	78,150	2,500	11,500					700	250	63,200
Heavy Oil Development	9.7	42,735						1,750	40,985		
Pipelines	7.2	31,640	27,090	1,185						890	2,475
Processing & Petrochemicals	6.5	28,505		500	3,100	985		1,300	12,205	10,415	
Electrical Gen. & Trans.	45.3	198,855	620	29,870	66,335	38,435	10,375	3,160	20,250	29,710	100
Forest Products	.8	7,710		310	1,210	1,665			1,200	3,325	
Mining	4.5	19,935		1,010		4,100	500	3,965	3,230	5,625	1,505
Primary Metals Products	.4	6,235		1,025	1,300	1,410	500			2,000	
Transportation	.4	6,355		420	2,315	450			955	1,885	330
Manufacturing	3.1	13,380	8,575	400	175	4,080			150		
Defence	.2	5,105	4,825	280							
TOTAL		438,605	43,610	46,500	74,435	51,125	11,375	10,175	79,675	54,100	67,610
% OF TOTAL EXPENDITURES			9.9	10.6	17.0	11.7	2.6	2.3	18.2	12.3	15.4

Note: Because of the wide variation of information sources, the project cost estimates included in the inventory are not stated on a consistent basis throughout. It is understood that most of the estimates are escalated to the year of expenditure by taking expected inflation rates into account. In some cases, however, other dollar bases have been utilized.

Source: *A Report by the Major Projects Task Force on Major Capital Projects in Canada to the Year 2000* (June 1981), p. 27.

is that the megaprojects can be used to generate regional benefits; our view is more conditional.

Our concern has two sources. These megaprojects involve enormous risks, are dependent on developments in international markets, and are very sensitive to minute changes in efficiency and costs. This makes us sceptical that the government can afford to attach to these projects some of the additional purposes suggested above without risking their viability. Simply achieving the production goals of the projects would represent an enormous victory over the multitude of factors that could block them. Can Canada seriously expect them to achieve every other desirable outcome as well?

The second source of concern is related to the 'lumpiness' of megaprojects. Lumpiness is a term used by economists to indicate that the projects involve a great deal of initial activity — a lump of activity — followed by a drastic tapering off. Thus, although these projects offer large numbers of jobs in their initial stages, most of them will generate relatively little long term employment. For the least developed regions, a megaproject could result in a frenzy of activity followed by a major letdown.

The conditional character of our response stems from our basic belief that effective economic development must take account of rational economic market requirements. If government subverts rational market mechanisms in an effort to direct the benefits of megaproject investment, we fear that the projects could suffer. The significant benefits megaprojects can bring must be allowed to stem from the functioning of Canadian markets.

Given suitable recognition of these caveats and conditions, because of their broad impact, megaprojects can still be expected to promote general economic growth. The report of the Task Force on major capital projects summarized the outlook and potential implications of these investments:

> Major projects already being seriously considered will involve expenditures of more than $400 billion by the end of the century, with much of the presently proposed investment naturally concentrated in the 1980s. This represents more than one-fifth of the total projected investment in the economy over the period to the year 2000. Expenditures of this magnitude will generate a substantial demand for labour; management, engineering, procurement and construction services; technology; manufactured products; and capital. Major projects and their requirements thus represent a special opportunity for Canada to strengthen and expand its economic and industrial base in a manner which can continue to provide long-term benefits in the future. Realizing benefits of such importance will therefore require special attention. ... To put the total inventory of major projects figure in perspective, it is equal to 1.5 times the 1980 GNP, over 10 times the 1980 total business non-residential fixed investment and more than 23 times the 1980 energy sector fixed investment.[5]

Table 4-3 illustrates how the activity generated by a megaproject could spread across Canada and to various industries. But it gives no indication of

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[5] *A Report by the Major Projects Task Force on Major Capital Projects in Canada to the Year 2000* (June 1981), pp. 23-26.

Table 4-3
Impact of Energy Investment in Alberta

DIRECT EXPENDITURE ON ENERGY PROJECTS (E.G., OIL SANDS DEVELOPMENT)	IMPACT ON GROSS ECONOMIC ACTIVITY ($ BILLIONS)	IMPACT ON INDUSTRIES IN OTHER PROVINCES ($ MILLIONS)	
		IRON & STEEL	920
		METAL FAB. & MACHINERY	340
	ALBERTA 16.3	TRANSPORTATION EQUIPMENT	150
		OTHER MFG. & PROCESSING	1670
	+	PRIMARY IND.	280
$7 BILLION INVESTED IN OIL & GAS FACILITIES CONSTRUCTION AND M & E IN ALBERTA	OTHER PROVINCES 8.0	FINANCE	725
	=	TRANSPORT., COMM., & UTILITIES	600
	TOTAL CANADA 24.3	TRADE & SERVICES	1040
		OTHER INDUSTRIES	410
		HOUSEHOLD INCOME	1910

Source: Shell Canada Ltd., (1-32-9A:28).

how the benefits will be distributed or to what extent the weakest regions of the country will participate. However, in terms of regional economic development, the government has suggested that major projects could be beneficial in two ways. First, in the regions in which they are located, the projects should generate considerable employment both directly on the project's construction and indirectly through the opportunity to provide services to project workers. Second, the projects themselves will consume enormous amounts of materials and supplies. To the extent that these are produced in the least developed regions, these projects could be helpful.

However, we fear that these projects may actually exacerbate rather than ameliorate regional disparities. In terms of location, for example, most of the planned projects are defined by their geography; they cannot be moved or induced to move to the least developed regions. Moreover, employment on these projects is for the most part only temporary; a large number of workers will be needed, but only for the construction phase of the operation. For example, the Trans-Quebec and Maritimes Pipeline is projected to create 11,457 man-years of employment during its construction, but only 324 permanent jobs; a heavy fuel oil upgrader in Ontario will use 4000 man-years in construction, yet needs only 70 during operation; and the Cat Arm River Hydro Station project in Newfoundland is expected to employ only 3 people on a permanent basis, although 1200 man-years will be required for construction.

With respect to opportunities to develop industries to provide supplies to the projects, there is a strong probability that the strongest regions will derive most of the benefit. The needs of the megaprojects — the machinery, steel and other supplies — can already be produced in the major manufacturing centres of Canada. Under present economic conditions, excess industrial capacity exists to supply the megaprojects without requiring, in most circumstances, additional capital investment.

Therefore, even if the megaprojects currently foreseen are actually put in place, there is little likelihood that the weakest regions will benefit nearly as much as the strongest regions. Rather than serving as the basis for the development of the least developed regions, megaprojects could serve to widen the economic gulf separating the various parts of Canada.

As we have indicated, the viability of many of the projected megaprojects requires that they be developed as efficiently and economically as possible. It may well be impossible to make the projects serve other than their own ends, and hence the widening of regional disparities that may result could prove unavoidable. Nevertheless, with some caution, it may be possible to reduce this effect if producers in the least developed regions are able to bid as equals for contracts to supply the projects. The government has already established an agency, the Office of Industrial and Regional Benefits, to monitor spending on major projects in order to maximize the benefits available to Canadians. We believe that it should be directed to pay special attention to the effect of the major projects on regional disparities. To balance the advantage enjoyed by larger, established companies, special efforts should be made to ensure that firms in the less developed regions of the country have easy access to information regarding supplies needed and opportunities for subcontractors so that they can share in these major developments if they are efficient enough to be competitive.

The lumpiness of the projects presents an additional source of concern. These projects will create patterns of employment far out of the ordinary; they will draw large numbers of Canadians, especially from the high unemployment regions, into their construction, and they will, if past patterns hold true, provide relatively high paying jobs. These jobs, often in remote parts of Canada, will, however, be only short term. Following completion of the projects, the work force will have to move off in search of another such project or to seek permanent employment elsewhere, perhaps with expectations inflated by the

pay available on megaprojects. The end product could well be a large, unhappy, gypsy labour force endowed with skills relevant to the construction of large scale projects but relatively ill prepared for employment in more stable jobs. Returning to their homes, this work force may only swell unemployment roles and harbour a legacy of resentment and distrust. Not just the Canadian labour market but the social fabric of Canada could be damaged as a result.

There is an analogy, although not perfect, to this situation. Canada's involvement in two world wars brought many young Canadians to jobs far from home and taught them skills that did not usually have application to post-war market needs. Following World War II, governments developed special programs to assist returning soldiers to fit back into the post-war economy. Such special efforts may now be necessary for those who will leave home to build Canada's megaprojects.

This potential problem has received far too little attention. We feel that it calls for careful attention to the possible timing of megaprojects, care in hiring, and special counselling and re-training for the workers who will be affected by the projects.

Rather than serving as the basis for the development of the least developed regions, megaprojects could serve to widen the economic gulf separating the well and less developed areas of Canada. Within the area of a project, large scale employment may be generated only during the construction phase. As for the production of supplies needed in projects, the strongest regions may derive most of the benefit.

Procurement

Governments are major purchasers of goods and services from across Canada and around the world; federal purchases amounted to over $12.5 billion in 1979 alone. The magnitude of these expenditures has led some to conclude that if governments used their purchases in some specific way, usually by giving preference to Canadian over foreign suppliers or by limiting competition to suppliers within their political jurisdiction, Canadian or provincial economic development would benefit. The relevant aspect of this issue for our Committee was whether procurement policies could be used to generate economic growth momentum in the least developed regions.

The Committee is opposed to this approach. We are convinced that market forces must dictate the pattern and scope of economic development. Under the rules of international trade — the General Agreement on Tariffs and Trade — governments are explicitly limited in their use of procurement policies, which are a form of non-tariff barriers to trade. Nevertheless, they are employed around the world and are used in Canada by provincial, federal and local governments. These policies not only interfere with the free international flow of goods and services, but they also contribute to the balkanization of the Canadian economy. We simply cannot condone such policies.

In considering this issue it became apparent that even non-discriminatory procurement policies may discriminate against the least developed regions. Governments are large purchasers and to minimize costs they typically pur-

chase in very large lots according to certain specifications. Producers in the least developed regions tend to be small and to produce either for specialized markets or for local markets only. To bid on a single government contract of significant size might require them to increase their capacity beyond what could be justified for ongoing operations, and the specifications of their product might not align directly with precise government specifications. For larger producers in the more developed regions, these may not be significant problems; typically, they are larger, have more flexible machinery and produce to meet a range of specifications in wider markets. Indeed, the specifications of the large manufacturers often serve as specifications for government contracts. These companies have clear advantages over those in the less developed areas in supplying government. Moreover, for the smaller companies, the costs involved in learning how to use and tender for government systems can be relatively high.

We do not subscribe to the belief that procurement policy should be used specifically to foster regional development or that preferential purchasing has any positive role to play in making Canadian industrial policy. However, firms in the less developed regions face difficulties in quoting on government procurement contracts because of the large size of orders placed, detailed government specifications and complex application procedures. If the government ordered in smaller quantities, introduced simpler procedures and called for less detailed specifications, the capacity of firms in less developed regions to compete would be enhanced.

Procurement policy and preferential purchasing should not be used specifically to foster regional development. Nevertheless, those aspects of purchasing policy that disadvantage producers in the least developed regions should be examined and possibly eliminated. The additional costs incurred should be monitored closely and compared with the benefits in terms of regional equity. Specific problems for such firms include the purchase of very large quantities, detailed specifications and complex application procedures.

CHAPTER 5

DIRECTING INVESTMENT: TO WHAT ENDS

Industrial Structuring

One of the grave difficulties in formulating regional development policies is that no one knows with certainty what creates development. Even first rate modern development economists (if they could be taken back in time) could not have predicted where development would or would not take place. As the Economic Council of Canada stated:

> There are known differences in resource endowments, investment capital, labour skills, technological usages, managerial practices and locational advantages, but none of these alone or in combination enable analysts to forecast with accuracy the growth potential or the actual dynamic processes and sequences of growth within Canada's different regions. (4-30-7A:7)

It follows from this that industrial structuring, that is, the selection by governments of certain industries for support, is a minefield. It is dangerous for goverments to attempt to determine which industries should be built up and which left to their own devices. With their vast resources, governments may be tempted or pressured into providing ever-increasing support to justify their original decisions. History is replete with success stories of unknown industries finding unexpected markets. At the same time, the sad case of the buggy whip industry should warn us of the dangers of depending on an industry that might become obsolete overnight.

The government is continually bombarded by conflicting advice on the need for increased assistance to resources or manufacturing or high technology industries, to farm equipment or textile producers, to auto manufacturing. Each request for aid has its own special merits: one is essential for national security; another will provide future jobs or retain existing jobs; yet another will enable Canada to hold its own among the leading industrial nations of the world. The contradictions and inconsistencies in these claims are the principal reasons we would choose not to place all the government's eggs in one basket,

or even two. Professor David McQueen had some wise advice to offer when he appeared before the Committee:

> Doing more processing of one's own raw materials is far indeed from a universal recipe for optimal regional or national develoment (if it were, Japan would still be far back in the Third World);
>
> Manufacturing is not the key to everything, only to some things, and there exists no single set of optimal ratios, for developmental purposes, of primary to secondary to tertiary industry; ...
>
> Higher technology industry is not necessarily better than lower technology industry, especially if half the outside world is planning to enter and compete with you in the particular branch of higher technology industry that you have in mind. (1-32-39A:16)

However, certain conventional wisdom permeates our regional development policies, becoming a form of industrial structuring. It is widely believed that the preferable areas for promoting development are in manufacturing and resource upgrading. There is also a new wisdom, which asserts that industry based on high technology is the most desirable form of development, and a folk-lore belief that Canadians should avoid at all costs being hewers of wood and drawers of water.

According to the Canadian Manufacturers' Association, over 80 per cent of Canadian manufacturing plants (in terms of number of plants, employees and output) are located in the central provinces of Ontario and Quebec (1-32-24:24). Manufacturing accounts for just 22.5 per cent of the total output of industry and 20 per cent of total employment. Also, manufacturing is becoming increasingly vulnerable to low wage competition, especially from the less developed countries. In order to compete, our manufacturing plants must become more capital intensive, and as a result, the growth in jobs tends to decline.

It makes sense to do as much upgrading of our natural resources as we can, but we must be practical about it. Our resources are sold in world markets, and we cannot dictate the form in which those markets will purchase these resources. In a world in which we can reasonably foresee a growing demand for our natural resources, there is very little wrong with being hewers of wood and drawers of water, especially when these resources come from a sector of the economy that generally employs the most sophisticated technology and enjoys the highest productivity of all sectors.

There is no doubt that high technology development has its attractions. It requires a major intellectual input, and therefore its main infrastructure is Canada's educational institutions. It is dependent on highly trained people and thus is less vulnerable to competition from low wage countries. It is far easier to regionalize these industries, for they are what economists call 'foot-loose' — that is, they are not dependent on a complicated infrastructure that is difficult and expensive to relocate — and transportion is often a minor component of their costs. However, high technology industries are the darlings of the development strategies of every other country in the world. This could easily, and will very likely, lead to market saturation for many high tech products. Although Canada must maintain a presence in the high technology field, it is

by nature a high risk field, studded with more failures than successes. It is not the total answer to the problem of development; it is an important part of a total development strategy, provided the objective is viable investment and not the satisfaction of national pride.

The recipe for success in development is to encourage investment in industries whose products are required by the market and can be produced at a competitive cost. Canadians should be wary of the conventional wisdom that manufacturing, natural resources processing and high technology are superior forms of investment. Canadians must be willing to consider all forms of investment, provided they are based on the concept of comparative advantage. It is essential to be open-minded at the outset; to study the particular situation of each region or sub region; to ask 'What will work best here? What kind of industry will be most likely to stay viable, to pay good wages and to go on generating jobs and other developmental spin-offs over the decades ahead?'.

It is dangerous for governments with their vast resources to back some industries while leaving others to their own devices. There is no evidence that governments possess insights that are lacking in the marketplace. The recipe for success in development is to encourage investment in industries whose products can be produced at a competitive cost. There has been a bias in our policy toward investment in manufacturing, resource upgrading and high technology. This bias should be discarded, for governments must be willing to consider all forms of investment, provided they are based on the principle of comparative advantage.

Overlooked Areas of Development

Conventional wisdom operates both ways, so we must mention the past tendency of governments to overlook development potential in the following areas:

1. A number of witnesses who came before the Committee argued that Canada's natural resource wealth has been the mainspring of development. Indeed the Conference Board of Canada stated that regions endowed with natural resources will show the greatest growth in the future. These resource developments will directly generate this growth, which will favour many of Canada's traditionally depressed regions. But it should not be forgotten that technology is the key to resource development and that there can be spin-offs of supporting service industries and sophisticated manufacturing. Nor should it be forgotten that although non-renewable resource developments are often more dramatic, it is the renewable resource industries, such as farming, fishing and forestry, that through more efficient production and marketing may make the greater contribution to development.

2. Service industries can make a major contribution to development. The traditional view of service industries is that they exist only as adjuncts to primary and secondary industry and that they suffer from low productivity. It is true that they tend to be labour intensive, but productivity gains in the sector are excellent, and many nations have built fine living standards on such endeavours as shipping services, banking, insurance, medical centres and tourism.

3. It is important to recognize that improved communications might well alter the concepts upon which regional development policies have been based in the past. Decentralization of activities is possible in a way it never was before. Management can be widely dispersed instead of being clustered together in a limited number of cities. The same is true of a number of activities that relate to administration, accounting and support services. Because of increases in transportation and energy costs and new technologies that make shorter production runs more efficient, it is now possible and desirable to have smaller production facilities that are much more widely dispersed. As Professor McQueen stated, "Scale economies in Canada are more often assumed than measured, and it is never wise to pile assumption on assumption to the effect that a region is necessarily too small and isolated to sustain some given economic activity or a piece of it."(1-32-39A:16) This could mean that people would have a wider choice of where to live and still enjoy gainful employment and the lower costs of a smaller community. The less developed areas of Canada could be major beneficiaries of this change.

In the formulation of a regional development policy there are three areas of investment that tend to be overlooked:

1. **Non-renewable resource development projects often attract more attention because of the drama that surrounds them, but renewable resource industries such as farming, fishing and forestry have made great strides in the use of technology to improve their efficiency. They can make a major contribution to regional development directly and, indirectly, through the spin-offs of supporting service and manufacturing industries.**
2. **Many parts of the service sector do not exist merely as adjuncts to resource and manufacturing developments. There are service industries that exist on their own and contribute greatly to development. Although it is labour intensive, the service sector has made excellent productivity gains.**
3. **The improvement of communications technology could permit decentralization of industry to an extent that was not possible in the past. In many industries, smaller units, widely dispersed could be more efficient than large concentrated units. This could result in considerable development in the less developed areas of Canada.**

Picking Winners

Analogous to the situation where government singles out specific industries for development is when specific firms are selected as the 'winners' of the future. The same claims are often made for these firms as are made for industries — that they are possessed of virtues that set them apart and make them especially worthy of government assistance. Government decision makers like to ride a winner; the temptation to join the bandwagon is great, but the results, all too often, are quite the opposite.

One recent DREE initiative, the Bureau of Business and Economic Development (BBED), seems to presage a more active federal role in industrial development. Set up in November 1980, the stated purpose of the Bureau is to work with the private sector to promote business opportunities in certain

regions of the country. In effect, DREE was to go out and look for businesses to which to give money, rather than, as it tended to do in the past, waiting for businesses to come to it. Analyses and identification of leading industries, firms and products were to be conducted by Bureau staff, drawing on the expertise of DREE's Project Evaluation and Assessment Branch and Regional Offices. Once a prospective firm is identified, BBED approaches the company to investigate the possibility of its expanding or locating in certain areas, and incentive funding is offered through existing programs (RDIA). For example, the decision of the MITEL Corporation to locate certain manufacturing facilities in Restigouche, New Brunswick and Renfrew, Ontario has been cited as the first example of positive reaction from industry. (In this case, approximately $77 million in funding and 1700 jobs are involved.)

We urge extreme caution in the use of this program, and others like it, for two reasons. First, we believe provincial governments should be invited to participate in the decisions. Significant industrial developments will impose certain demands on provincial governments, and they should therefore be involved in the decision making process. Second, we question the ability of politicians and bureaucrats to pick the winners. There is also a strong risk that this program will simply lead to the transfer of investment from one part of Canada to another.

Head Offices

Several witnesses drew attention to the resentment caused by the domination of Canadian investment by financial centres and head offices located in central Canada. The location of a head office can be important in two basic ways. First, a company whose head office is located within a region can be more sensitive to the needs of the region, more concerned with the development of the local economy and social institutions, and can make an important contribution to the development of the area. Second, head offices are major consumers of supplies and services, so that the presence of a head office can serve to stimulate the development of other sectors of the economy.

In addition to these financial reasons for believing that head offices can encourage regional development, there are several other considerations. Head offices attract managers and other highly trained personnel. They are symbolic of the region's success and potential and contribute immeasurably to the pride and feeling of accomplishment of the area's population. And head offices, through their charitable contributions and support of local institutions, can greatly improve the social and cultural standards of the communities in which they are located.

As Robert Blair, Chairman and Chief Executive Officer of Nova, an Alberta Corporation, stated to the Committee, "We lost track in Canada temporarily of the enormous effect of location of head offices, one of the biggest influences for better or worse on regional dynamics or stagnation. The community or region with some business head offices has important qualities and vitality."(1-32-9A:6) As development has accelerated in western Canada there has been some movement of head offices to that region, but Canada's decentralization of head offices lags far behind the USA where a number of

the world's largest companies have head offices far removed from the major financial centres, some even in the smaller population centres.

With improvements in communications, especially in data transmission, it is possible to exercise competent management from locations throughout the country, and the ability to do so cannot but improve in the future. It may not be reasonable to assume that head offices could be relocated to the less developed areas of Canada, but it is reasonable to assume that there can and will be a much greater distribution of head offices across the country, mostly in the developed areas. This decentralization may not directly affect the less developed areas, but there will be indirect benefits arising from the vibrancy contributed to provincial economies by a wider distribution of head offices and by the fact that more head offices would be geographically closer to a greater number of less developed areas.

Although we believe that some decentralization of head offices will take place in time, the importance of this occurence to regional development is such that the government should investigate the possibility of using tax incentives to encourage a wider distribution of head offices across Canada. It should not be too difficult to fashion these incentives so that they would apply only to real and not to nominal head offices.

Improvements in communications technology permit a wider distribution of head offices throughout Canada, with beneficial economic effects for the major regions and, indirectly, for the less developed areas of the country. Accordingly, the government should investigate the possibility of using of tax incentives to encourage a wider distribution of head offices across Canada. It should not be too difficult to ensure that the incentives apply only to real, as opposed to nominal, head offices.

Rationalization

Semi-industrial countries are exporting not only cheap, labour-intensive manufactured products, but also a growing range of capital-intensive goods. We can expect intensified competition from countries that contain about half the world's population. This competition and the shrinkage of certain markets have created a dilemma for policy makers.

Although the Committee has expressed opposition to government support for selected industries, we do not suggest that the government should not assist industries that are subject to unfair foreign competition or that it should ignore the need to help some industries to adjust to new conditions. But this assistance should be made available to all industries as necessary and not just to a select few deemed worthy by their self-proclaimed virtues.

Even so, this assistance must not be used to prop up industries that are no longer viable, because one of the requirements of sound development is the shift of capital and labour resources from the weak and less viable sectors of the economy to those with stronger growth potential. As one of our witnesses, Mr. Gerald H.D. Hobbs, former chairman of COMINCO Ltd., stated, "Money spent on the futile preservation of a doomed operation deprives the economy of funds which might otherwise be spent on industrial activities to

increase, rather than diminish, the overall prosperity of the country."(1-32-27:9) Where an industry cannot continue without assistance beyond a limited time period or cannot be restructured to meet new industrial conditions, it should be phased out, with government assistance to ensure as little damage as possible to the economy and to people.

The government should assist industries that are subject to unfair foreign competition and may help industries to adjust to new conditions, but when an industry is no longer viable without continuing government assistance, it should be phased out with as little damage as possible to the economy and to people.

A Question of Conditions

Businesses in Canada are tightly regulated with respect to business practices, the operation of plant and equipment, the use of the environment, hiring practices and so on. Yet frequently there are calls for more restrictions, particularly on businesses supported by governments that are intended to be 'models' for other firms.

Obviously, when a firm receives government assistance, the opportunity exists to place conditions on it that may exceed those applied to other firms. Hiring practices could be regulated to ensure equality or even remedial hiring of one group or another; its sales could be limited to prevent it from dealing with regimes in other countries that are viewed as unsavoury; and additional environmental rules could be put in place.

The Committee considers this a dangerous approach, especially for investment in the least developed regions. At any time, in any place, investment is a risky business, one in which the investor must have a keen awareness of new developments and the ability to react to new competition. If restrictions are placed on an investment beyond those on its competitors, we can hardly expect that investment to prosper. Moreover, the opportunity to place conditions can lead to bureaucratic meddling with the operation of market forces that may be totally inimical to efficient regional development.

Our opposition to placing conditions on investment assistance is the same, whether that assistance is in the form of cash, tax concessions or other incentives. If the government has legitimate restrictions it wishes to place on business or wishes to modify business behaviour in some way, it should proceed to pass laws that apply equally to all businesses. Incentives should not be used to bear the burden of goals other than rational, efficient and effective economic development.

Governments should resist the temptation to take advantage of assistance offered to firms to place restrictions on their activities. Investment in less developed regions is likely to be marginal, and additional restrictions can only reduce the viability of the investment.

High Risk Ventures

Canada's least developed regions, as the Task Force on Labour Market Development in the 1980s noted, are characterized by 'thin' labour markets;

employment opportunities are few and far between. When any company is forced to shut down, the work force faces an extremely slim chance of finding new employment. The Task Force concluded that the most appropriate industries to be assisted to locate in the underdeveloped regions are the more seasonally and cyclically stable, established industries. We believe that this recommendation has considerable merit, and conclude that in assessing the suitability for assistance of a particular firm, considerable weight should be assigned to the stability of the firm and to conditions in the industry in which the firm will operate. Cyclically and seasonally sensitive industries should not, in general, be viewed as favourably as more stable operations. Such investments may lack the glamour and potential for spectacular results inherent in high risk ventures, but as a tool for the development of a stable employment base where none existed previously, the lower the risk, the better the likely outcome.

SECTION THREE

NEW STRUCTURES AND APPROACHES — ARE THEY ADEQUATE?

On January 12, 1982, the federal government announced a major policy and administrative reorganization. This involved establishing a new structure for elaborating and executing regional development policy and adopting a new approach to working with provincial governments. In outline, the announced changes comprise:

1. the extension of responsibility of the Ministry of State for Economic Development to include the regional aspects of development policy; the ministry was retitled the Ministry of State for Economic and Regional Development (MSERD) and will have offices in the capitals of each province;
2. the merger of the Department of Regional Economic Expansion into the former Department of Industry, Trade and Commerce to form the new Department of Regional Industrial Expansion (DRIE);
3. an increased focus on the 'regional' dimensions of the Canadian economy combined with a decision to reduce the federal government's reliance on provincial governments to deliver industrial assistance programs; and
4. increased governmental reliance upon the potential of so-called megaprojects as instruments for promoting economic development.

It will be months before flesh forms on the bones of these new structures and the new approach to the provinces is elaborated. Accordingly the Committee's comments will have to focus essentially on the approach revealed in the government's statements on the reorganization.

CHAPTER 6

THE CURTAIN COMES DOWN

The Department of Regional Economic Expansion was created in 1969 with a mandate to eliminate overlapping and unproductive federal government efforts and, by positive action, to reduce regional economic and social disparities. Early in 1982, just thirteen years later, DREE was eliminated.

Academics and other experts undoubtedly will now begin to examine the DREE legacy in order to understand and evaluate its effectiveness. Some will argue that it was successful and will find statistics to support that contention. Others can be expected to highlight its failures with equally well chosen statistics. Our own evaluation is mixed. Certainly DREE experienced some profound failures and suffered from a number of weaknesses. But it also had numerous successes and served to reduce at least some of the sources of regional disparities.

Past Efforts

The Department of Regional Economic Expansion was but the most recent manifestation of federal government efforts to encourage regional development that date back to Confederation; many of the earliest national policies were designed to facilitate the development of one region or another. These early policies were not aimed specifically at what we know now as disparities, but were vital components of the challenge of that period — nation building. Canals were built to help one region and railroads another.

Gradually, however, as the country matured and the frontiers receded, increasing concern was expressed about the relative gaps in incomes and rates of development among even the oldest of the developed regions. The result was a growing number of government programs designed to mitigate regional prosperity gaps. Efforts continued, and in later years, especially following World War II, the number of programs increased dramatically, as indicated in Table 6-1.

The consequences of the proliferation of programs were, in hindsight, inevitable. Programs overlapped, efforts were duplicated, and policies designed to aid a needy area were sometimes claimed to have harmed the development of other equally hard-pressed populations. Without adequate co-ordination, the

effectiveness of programs was muted, and the problems of regional economic development assumed the complexity of the riddle of the sphinx. Despite the efforts, no one seemed to have the key.

Table 6-1
Federal Assistance — Some Past Efforts*

1935 —	*Prairie Farm Rehabilitation Administration:* to combat drought and soil drifting in the Prairies.
1957 —	*Fiscal Equalization Scheme:* to equalize the ability of the provinces to provide public services.
1960 —	*New Products Program* (for surplus manpower areas): to permit firms to obtain double the normal rate of capital cost allowances on most assets acquired to produce new products in designated areas of high unemployment and slow economic growth.
1961 —	*Agricultural and Rural Development Act:* to alleviate and correct the incidence of low incentives in agricultural areas through federal-provincial programs to increase small farmers' output and productivity.
1962 —	*Atlantic Development Board:* to advise on measures and to assist projects related to the economic development of the Atlantic region.
1965 —	*Area Development Incentives Act:* to alleviate chronic high unemployment by attracting manufacturing and processing firms to locate or expand operations in areas of high unemployment through capital cost allowances, income tax exemption and cash grants.
1965 —	*Manpower Mobility Program:* to provide relocation grants to unemployed workers.
1966 —	*Canada New Start Program:* to identify and test new ways of motivating and counselling disadvantaged adults to use regular training programs and employment opportunities.
—	*Fund for Rural Economic Development:* to develop plans to deal with problems of concentrated and severe rural poverty that could not be effectively dealt with under the more general ARDA approach.

* Based on information in *DREE: Departmental Profile*, June 1980 and J. P. Francis, *Regional Development Policies* (Ottawa, 1974).

In 1969, a new approach was taken. The Department of Regional Economic Expansion was created to bring order to the clutter of federal programs and to find new solutions to the enigma. At the time of its creation, DREE's role

was unique within the federal government. It was a 'horizontal' department, cutting across the policy fields occupied by other departments. DREE was intended to co-ordinate and lead federal economic development efforts within the needy regions. Accordingly, DREE was assigned authority over "all matters ... relating to economic and social adjustment in areas requiring special measures to improve opportunities for productive employment and to improve access to those opportunities."[1]

DREE could not, however, operate freely. It was burdened with the inheritance of a number of earlier programs, including the Agricultural and Rural Development Act, the Fund for Rural Economic Development, the Prairie Farm Rehabilitation Administration, the Canada New Start Program, the Area Development Incentives Program and the Atlantic Development Board. These programs dominated DREE's initial efforts. The social adjustment and rural assistance elements of DREE's program used the inherited programs, and the industrial development element — the Regional Development Incentives Act — was a modified version of the Area Development Incentives Act. The final element of its initial efforts involved the provision of industrial infrastructure through the Special Areas program. New solutions would, it seemed, have to wait.

By 1972, the waiting was over. DREE had undertaken a major internal policy review which identified two principal policy thrusts. The first emphasized the need for all federal sectoral departments to participate in regional development through planning, funding and implementation of regionally specific programs and through care in the design of national policies. The second focused on federal-provincial co-operation. A major program instrument, the General Development Agreement (GDA) between DREE and each provincial government was the result. The concept embodied in the GDA instrument (which we mentioned in Chapter 3 in connection with the provision of infrastructure and about which we will say more in Chapter 8) was not entirely new, even in 1972. The Special Areas Program (1969) had allowed for federal-provincial consultation and agreement, and the 1969 bilateral agreement with Prince Edward Island provided a model for the intended comprehensive development strategies and plans to be included in the GDAs.

For a decade, DREE approached the problems of regional economic and social development primarily through the GDAs and through a strengthened Regional Development Incentives system to subsidize capital investment in certain regions. In addition, as a department of the federal government, with ministerial representation in Cabinet and in Parliament, DREE was able to act as the conscience of the more developed and voice of the least developed regions of Canada. Specific attention to the special needs of the least developed, most vulnerable regions could be paid by its researchers and program officers, and by its presence, DREE served as a reminder of the continuing difficulties of regional development.

All this is now history. The incentive programs operated by DREE have been reassigned to the new Department of Regional Industrial Expansion, and the government has stated that the General Development Agreements will be

[1] DREE Act, 1969.

allowed to expire, perhaps to be replaced by what have been described only vaguely as more general agreements between the federal and provincial governments outlining possible areas of co-operation.

The long and short of the 1982 reorganization is that some basic components of the past ten years' efforts to encourage the development of Canada's least prosperous regions have been abandoned, and it is not at all clear how they are to be replaced.

Problems in Commenting

It is not easy to comment in a partial vacuum. Virtually all we have to go on is the government's statement of January 12, 1982. We know that the government is working out the new organization and that sooner or later it must come forward with, as a minimum, legislation to legitimize the new departmental structures it has announced. At that time the government should also report in detail on the policies these new structures are intended to carry out.

The Committee could play it safe by waiting until the government's plans and policies have been elaborated in public statements and then offering advice for consideration. Or we could ignore the changes altogether, claiming that our concern is policy and that the administrative structures are of interest only to bureaucrats and ministers. Despite the risks of commenting when structures and policies are in flux, we have decided that only by speaking up at this stage can we contribute to the policies and structures that will emerge from the present uncertainty and internal debate.

Policies and structures are inextricably linked; program delivery and policy making are intertwined. Regional development inevitably involves relationships with provincial governments, and the approaches adopted by the federal government will determine the effectiveness of what is done by both levels of government. Our conclusion is that now is the time to speak; to wait implies that we have nothing to say on how the reorganization should be carried out. In fact, we do see potential benefits in the way structures within the federal government are being reorganized, provided that the necessity of maintaining a strong commitment to assist the development of the least developed regions of the country is not forgotten. As for the new approach to working with the provinces implicit in the January 1982 statement, we have serious concerns.

CHAPTER 7

THE NEW FEDERAL MACHINE

Had the reorganization within the federal government not taken place, this Committee would have made a number of recommendations about the future evolution of regional development efforts. We would have proposed that DREE refine its focus, designating more carefully a smaller proportion of the country in which to apply its efforts. We would have critized the continuing lack of co-ordination of effort within the federal government and DREE and its inability to pull together the government's regional development efforts. Following the reorganization announcement, the Committee decided to direct its comments to what is known about the new structures, in particular the two principal policy instruments created in 1982, the Ministry of State for Economic and Regional Development (MSERD) and the Department of Regional Industrial Expansion (DRIE).

Who is to be Concerned for Regional Disparities?

The Ministry of State for Economic and Regional Development is to be the primary policy co-ordinating instrument within the federal government in terms of industrial development. Its potential is enormous in terms of influencing the focus of government policies. But unless the Ministry pays specific and particular attention to the needs of the least developed regions, the Committee fears that the regional disparities that have plagued Canada for so many years will be exacerbated, and the lessons learned from DREE's successes and failures could be forgotten.

Our conviction is that the least developed areas in all provinces deserve special status in the context of economic policy making, for they carry a heavy legacy of handicaps not confronting other regions. Special programs will continue to be needed in these areas. If the least developed regions are not formally designated and marked for special status, the Committee is concerned that under the new structure they will be forgotten by governments. Governments tend to prefer the safe to the risky; the greater the probable rate of return, the more likely governments are to be interested. Investment in the least developed regions is a risky business; past failures bear bitter witness to this fact. Moreover, these areas, which are often relatively sparsely populated, may offer little by way of political rewards. We suspect that without constant

reminders of their importance, the least developed regions will be left in just that condition. Bureaucrats and governments alike may tend to shy away from investing in them the time and effort they merit.

The government's reorganization announcement of January 1982 includes many references to the word 'regional', and the term is part of the names of the responsible ministry and department. But the fact that the word has several meanings has caused us to examine the federal statement with particular care. We note that the term is used generally to refer to provinces or, occasionally, in the broader sense of 'the Atlantic region'. We are concerned that the word was never used to refer to the least developed regions within each province. Our concern was reinforced when we failed to find even a single reference in the statement to the word 'disparities'.

Under the previous structure, the least developed regions had a defender within the federal government — the Minister of Regional Economic Expansion. Now that this department has been disbanded, its policy mandate transferred to MSERD, and its program delivery responsibilities assigned to DRIE, who will champion the cause of the least developed regions in Cabinet? The ministers heading MSERD and DRIE both have divided responsibilities, and the regional emphasis placed in the government's announcement shows a strong concern for securing credit for federal initiatives of all kinds in the provinces.

Let us illustrate our concerns with regard to DRIE. In the absence of additional explicit goals, the success or failure of the department, its minister and its bureaucrats will be determined on the basis of its ability to foster successful investments. From past experience, we know all too well that the failures will be front page material and that the story of one prominent disaster will have more impact than the many successes the department might enjoy. This is one reason politicians and bureaucrats tend to avoid risk. As DRIE selects individual projects for assistance, a strong bias against the least developed parts of the country where the risks are highest could easily develop, unless the department and its minister are assigned a very specific mandate to promote development in the least developed areas and this mandate is seen as separate from the other activities of the department.

The same concerns apply to MSERD. Its responsibilities are broader and therefore more diffuse. The emphasis given to megaprojects in the government's statement on MSERD suggests that its focus will be 'where the action is'. The implication was that the fall-out from the megaprojects would look after the least developed regions, an assumption we questioned in Chapter 4.

The Committee has stated its strong belief that Canadian governments must continue to be concerned with assisting the least developed regions of the country to develop themselves. There are disturbing signs that the government reorganization, while paying lip-service to regional disparities, will be focused on the main chance. As stated earlier, the Committee perceives a need for a co-ordinating structure within the federal government, and MSERD could fill this need. However, the Committee regrets the government's decision to submerge DREE in DRIE because it removes the one voice in Cabinet committed to the development of the least developed regions. Without DREE, MSERD may not face the same pressure to focus on regional disparities.

These are our concerns, but there is no point trying to mend broken eggs. What is essential is that both MSERD and DRIE receive legislative mandates requiring them to pay special attention to the problems and needs of the least developed regions of the country. The Committee intends to pay careful attention to this essential requirement when the legislation regarding the new ministry and department are submitted to the Senate for consideration.

With the demise of DREE, there is no longer a federal department with the sole mandate of promoting development in the least developed regions of the country. There is a risk that the Ministry of State for Economic and Regional Development (MSERD) and the Department of Regional Industrial Expansion (DRIE), which have responsibility for the prosperous as well as the least developed regions, may pay diminished attention to the latter. Accordingly, MSERD and DRIE should receive legislative mandates requiring them to pay special attention to the problems and needs of the least developed regions of the country.

Need for Designated Regions

Designating the least developed regions for special status to ensure that regional disparities are not forgotten is not an easy task. As DREE discovered, a political system generates enormous pressures to extend the boundaries of programs that generate cash flow. As a result, DREE ended up including more than half the geographic area of the country in the designated areas, and the purpose became hopelessly diluted. But without DREE to argue the case for the least developed regions, it becomes very important that MSERD designate, in co-operation with the provincial authorities, specific regions of the country that most require, and that could benefit from, special industrial assistance programs.

At this time of economic stress, the government has been emphasizing some federal programs that have an incidental regional impact. Specific industries and communities have been identified as requiring special industrial adjustment assistance during a period of transition or industrial disruption. Our insistence on the need to designate certain areas for special consideration should not necessarily be taken to include the areas now receiving attention. Many have been traditionally prosperous areas and, although they face significant changes in the future, they already possess the foundations upon which to rebuild. Our concern is for those regions that for many years have known little more than failure and threatened failure and have existed at income and employment levels well below those in other parts of Canada. These areas have not fallen recently from economic grace in the same way that certain manufacturing areas in southern Ontario have done. The regions that concern us have never known such grace. Areas facing profound economic disruptions for the first time can and will, we believe, generate sufficient political interest to receive special assistance. But the regions that have never known prosperity can all too easily be forgotten.

MSERD should be directed, in co-operation with provincial authorities, to designate specific regions across Canada that most require and that would benefit from regional development programs. This designation should be

confined to the least developed areas of Canada and should not include areas that require special industrial adjustment assistance during a period of transition or industrial disruption.

Ministry of State for Economic and Regional Development

MSERD inherits the functions of the Ministry of State for Economic Development, namely the assessment of the plans and programs of government departments that contribute to economic development. The Minister of State is assisted in this function by a small, highly qualified secretariat. The Ministry works through committees at the ministerial and deputy-ministerial level of all the concerned departments. Through this mechanism it seeks to co-ordinate the development activities of federal departments and allocates the funds in the economic development envelope to the respective departments.

The government announcement establishing MSERD proposed that the Ministry's responsibilities be broadened to include the co-ordination of regional development policy. To aid it in this function, senior federal officials reporting to MSERD are to be located in each of the provincial capitals where they are to have a similar co-ordinating role.

If the approach the Committee recommends is to be applied, MSERD will require a capacity to carry out the mandate of promoting development in the least developed regions. In particular, a branch will have to be established within the Ministry with specific responsibility for the least developed regions. The Ministry's provincial offices should also have a separate staff to analyze the conditions and needs of the areas of the province designated as requiring special assistance. The Ministry might also prepare guidelines to be followed by other departments in developing policies to assist the designated areas.

Department of Regional Industrial Expansion

The Department of Regional Industrial Expansion represents an amalgam of the industrial development part of the old Department of Industry, Trade and Commerce and virtually the whole of the former Department of Regional Economic Expansion. The combined Department constitutes the primary delivery vehicle for the government's various industrial development policies. It is now responsible for guiding the evolution of economic development programs and for establishing the mechanisms necessary to deliver these programs to the industries of Canada.

The new Department has responsibility for programs with quite different thrusts — one sectoral and the other regional. This merger has produced the potential for conflict within the Department between these two approaches, a conflict that is inevitably more acute during a period of scarce resources. In the past these different approaches were separately pursued by two mandated departments, and any conflicts were resolved at the Cabinet level. Now, with one minister responsible, there is a risk that policy differences will be resolved

at the bureaucratic level or by the decision of the Minister, without an input from his colleagues. This is a prospect that worries the Committee.

DRIE has inherited the experience and staff of DREE, which gives it the potential to operate programs to encourage the development of the least developed regions. But unless DRIE is also given in legislation a clear mandate to pay particular attention to regional disparities and to the needs of the least developed regions, we fear that the least developed regions may be left to fend for themselves, while assistance flows to the industrial sectors and regions of the country that appear to offer the best prospects for development.

For this reason alone, the Committee feels that DRIE needs strong capabilities in Ottawa and in its regional offices to deal with the least developed regions. But there is another reason. These regions currently lack the economic bases, which the more developed parts of the country have, upon which DRIE can build. There are few established companies with strong dynamic leadership, and the labour force and local entrepreneurs face challenges created by decades of failure and continuing financial hardship. Program delivery mechanisms that might work in the context of a stronger economic base will not function effectively in the least developed regions. Special programs, and perhaps more active support, are necessary in these areas, and DRIE must be directed to provide them.

The Department of Regional Industrial Expansion is still adjusting to the merger, and our comments must be tentative. But we believe it is essential that a special branch of the department, with officers in each of the regional offices, be established. This branch should be responsible for the delivery of special industrial assistance progams in designated areas as identified by the Ministry of State for Economic and Regional Development.

Other Departments

One of the most damning and valid criticisms of government policy during DREE's existence is that it failed to co-ordinate the activities of other departments in the effort to ameliorate regional disparities. In fact, some observers claimed that DREE had quite the opposite effect. They suggested that other departments abandoned the least developed regions to the care of DREE, and hence that DREE's presence served only to compensate for the malign disinterest shown by other departments.

This must not be allowed to occur in future. Effective economic development in Canada requires the efficient involvement of all the arms of government. Transportation and communications, for example, are essential components of growth, as are reasonable and productive labour and manpower facilities and efficient environmental safeguards. All departments must be keyed in to the unique requirements of the designated areas, and this requires policy co-ordination and concern across government.

The work of the Cabinet Committee on Economic and Regional Development will be essential in this regard. Its members must be ever sensitive to the regional problems of the Canadian economy and prepared to involve their departments in co-operative and co-ordinated efforts to overcome them. To

ensure that the responsible ministers and officials of MSERD and the other departments involved focus regularly on these issues, every government department should undertake annual assessments of the effects of their policies on the regions designated by the Ministry of State for Economic and Regional Development. These reports should be assessed by MSERD in terms of the effectiveness of departmental programs in reducing disparities, and the MSERD assessments should be reviewed by the Cabinet Committee on Economic and Regional Development.

Every government department should undertake annual assessments of the effects of their policies on the designated regions, and these reports should be assessed by MSERD and reviewed by the Cabinet Committee on Economic and Regional Development.

CHAPTER 8

CO-OPERATING WITH PROVINCIAL GOVERNMENTS

The Canadian constitution commits both levels of government to regional development; it likewise divides and apportions the responsibilities and powers that can be used to promote such development. Even more important is the fact that regional disparities are as much provincial problems as matters of federal concern. In every province, whatever its level of economic development, there are areas of relatively healthy economic development — cities and towns in which employment has been strong and which, despite current problems, have prosperous futures in the longer term. But there are also areas of profound economic distress and weakness, often side-by-side with the areas of strength. This is as observable within provinces traditionally thought to be 'have-nots' as it is in provinces now thought wealthy. So the federal government and all provincial governments face a similar problem.

The Committee received considerable evidence that regional disparities exist not so much between provinces as between areas within provinces. While there are jurisdictional boundaries in Canada, regional development policies do not fit neatly into them. One witness, Professor N.H. Lithwick, argued that economic flows are between cities and not from rural areas to cities within the same area. (1-32-21:23) There is also evidence that the earned income of workers in similar sized cities is much the same, no matter what regions those cities are located in. This does not mean there is no regional disparity problem; what it does suggest is that to a large extent it is an urban-rural problem.

The federal government can be particularly effective in assisting regional development by providing infrastructure; by providing a tax regime that encourages investment; and by ensuring that national policies do not favour the more developed over the less developed areas. The difficulty is that the wealthy provinces tend to enjoy advantages in these fields over the less wealthy provinces. For example, the actions of provinces can neutralize federal fiscal regional development measures. There is an increasing tendency for provincial governments to use fiscal measures to achieve social and economic goals, especially through the use of tax incentives, and of course the advantage in this area lies with the wealthier provinces.

Because of the advantages enjoyed by wealthy provinces in the development field, it is essential that the federal government be involved in regional

development. As the Honourable Allan MacEachen, Minister of Finance, stated to the Committee, the federal government must "retain a strong capacity to support and strengthen the less advantaged areas" and it "has a particular responsibility for ensuring that the pursuit of regional interests takes place in a manner which strengthens rather than fragments the economy."(1-32-17:8) In addition it must ensure the maintenance of the Canadian common market, encourage the provinces to support each other's development policies, and prevent the economic balkanization of the country.

It would be fairly simple if Canada were a unitary state, but it is a complex federal state with a division of jealously guarded powers. This means that the federal government has a strong role to play in regional development and the reduction of regional disparities, but it must seek the co-operation of the provinces.

However, provincial co-operation has often proved elusive. Part of the reason is the failure to give the regions better representation at the federal level. Because the Senate has not represented regional interests as effectively as it might have, and because the membership of the House of Commons is based on representation by population, the central provinces have had the political clout to promote their own economic growth. The more recent growth of resource wealth in some of the other provinces has given them the financial muscle to promote their own development, sometimes without regard to the welfare of the nation. As the C.D. Howe Research Institute put it, "In the current decision making framework there is a distinct possibility that the country will end up with eleven incompatible industrial strategies."(4-30-8A:13) Canada might go a long way toward eliminating this tendency if there were more balanced representation at the federal level.

Given that this kind of representation does not exist in the federal Parliament and that it is unlikely that the wealthy provinces will refrain from using their resources to promote their own development, there must be some rationale on which the co-operation of federal and provincial governments in regional development policies can be based. If all provinces have both developed and underdeveloped areas, then there is a strong community of interest between the federal and provincial governments in regional development; it is therefore in their respective interests to co-operate in this field. However, each level of government has developed special programs and policies to deal with regional disparities. Not surprisingly, their co-ordination has become a major problem.

The Necessary Ingredients

Effective intergovernmental co-operation requires interpersonal co-operation at the political and bureaucratic levels. Unfortunately, co-operation is not always the most likely outcome of interaction between levels of government; competitiveness more often characterizes the relationship. Each side feels that it has the best perspective on understanding the problem, is most representative of the will of the people, and that its policies should prevail. Up to a point, competitiveness is healthy; it provides motivation and stimulus. But competitiveness can also lead to attempts to assign blame and seek credit. In short, the rivalry can become counterproductive, destructive and wasteful.

A balance must therefore be struck between maintaining healthy competition and eliminating its negative tendencies. Federal and provincial bureaucrats need not agree on all matters of politics and philosophy. But they must recognize that their roles in the development process are complementary and understand each other's capacity to accomplish certain necessary tasks. Above all, they must learn to recognize and eliminate political and bureaucratic power struggles where these are blocking the consolidated efforts needed to overcome economic maladies.

The General Development Agreements: A Retrospective

For the past decade, the two levels of government approached regional disparities through a very basic mechanism, the General Development Agreements (GDAs). These agreements occupied a considerable part of our examination of the intergovernmental aspects of regional development; generally, we were impressed by their logic and potential. Particularly because the federal government announced recently that the GDA mechanism would be replaced, it is essential to review the experience with the program and to identify its strengths and weaknesses.

The GDAs represented a serious effort to co-ordinate and consolidate those activities of the two levels of government designed to aid the least developed regions. The Agreements consisted of several levels of increasingly specific documents. The most basic level, the General Development Agreement per se, provided the framework for subsequent levels of agreement and activity. Their stated purpose was "to facilitate joint federal-provincial co-operation in initiatives for the economic and socio-economic development of the province". Although the objectives of each Agreement varied slightly from province to province, they generally included the creation of jobs and the enhancement of income. Costing arrangements also varied with the economic capacity of the province involved (see Table 8-1), and there was also room for some variation between specific projects.

Below the general level, subsidiary agreements were negotiated to specify in more detail the strategies to be pursued in major initiatives. For example, a subsidiary agreement might cover intergovernmental co-operation for the overall development of a specific industry such as forestry, and might include details regarding the establishment of management boards for individual projects, general strategies to be pursued, and criteria to be followed in selecting specific projects. The next level of the system involved the choice of specific projects, the establishment of management boards — usually including federal, provincial and outside members — and the conduct of the project.

This system offered a number of significant advantages, including the ability to co-ordinate federal and provincial activities and the means to specify goals and objectives incorporating explicit strategic elements directly in the planning. Specific provision was also made for the active involvement of federal departments other than DREE, and many of the subsidiary agreements were co-signed by these departments. Finally, the negotiations offered a vehicle for the appraisal and evaluation of each specific project.

Table 8-1
Cost Splitting in the General Development Agreements

Province	Maximum Federal Share	Minimum Provincial Share
	%	%
Newfoundland	90	10
Nova Scotia	80	20
New Brunswick	80	20
P.E.I.	90*	10
Quebec	60	40
Ontario	50	50
Manitoba	60	40
Saskatchewan	60	40
Alberta	50	50
British Columbia	50	50
N.W.T.	50	50
Yukon	50	50

*School Construction = 50%, agricultural research = 100%, all other programs = 90%

a) Assessment

Weaknesses in the GDA system became apparent as time passed. The strategies and goals set out in the agreements were often too vague; almost any project could be shown to be consistent with the agreements. The agreements were not tight enough to prevent inconsistent projects or projects with poor long term payoff. Short term, make-work projects often found their way into programs that should have been limited to efforts to achieve long term development. As noted earlier, the size of the regions covered by agreements was allowed to balloon until few areas in Canada were not covered. Branches of the federal government other than DREE were not adequately involved in the projects, despite efforts to bring this about. And the absence of overall timetables and specific objectives meant that the assessment of a project's success or failure was purely subjective.

The GDAs have in fact become everybody's favourite whipping boy, being blamed for situations that are intrinsic in a federal system. Now that the federal government has decided to allow the GDAs to lapse, it is suggesting that they were also responsible for the long delays in making decisions. The tightly interwoven responsibilities for projects conducted under the GDAs meant that several departmental bureaucracies, and often the cabinets of both governments, were required to agree on projects. This added uncertainty to the planning process within governments and exasperated those who had to deal with the governments.

But the greatest sin in federal eyes, and the source of strong resentment, was the fact that the federal government was putting up large sums of money, up to 90 per cent of the cost of certain programs in some provinces, and getting little or no credit. This reason above all others explains the decision to allow the General Development Agreements to lapse.

The Committee deplores this decision. The deficiencies ascribed to the GDAs are the unavoidable problems of attempting to co-ordinate spending

decisions by two levels of government in complex fields in a large and varied country and, in particular, in a politically competitive environment. In this situation it is a wonder that the GDA approach worked at all. In the Committee's judgement, the GDA concept was balanced and well adapted to the political situation in Canada, although it needed some tightening up.

b) Future Prospects

The Committee's concern with regard to the decision to allow the GDAs to lapse is heightened by the paucity of information regarding what is to take their place. The government stated that they would be replaced by "simpler agreements", which seems implausible to anyone who has read the very simple GDA umbrella agreements. The funds that would have gone to GDAs are to be placed in a single "regional development fund". No indication has been given as to how this fund is to be used.

A third feature of the future system will apparently involve much greater emphasis on direct delivery by the federal government of specific projects in the provinces, in the belief that this is a sure way to gain recognition. The Committee recognizes that direct delivery may be a suitable means to achieve this end, and may be consistent with efficient government programming. Indeed, there is no contradiction between GDAs and some direct delivery of federal projects. An interesting example, which the federal government might even use as a model, is an Ocean Industry Development agreement signed with Nova Scotia on July 27, 1981. This agreement, which was subsidiary to the GDA between the governments of Canada and Nova Scotia, provides for certain of the projects to be funded and delivered by the federal government and others to be funded and delivered by the provincial government.

The Committee warns that the decision to abandon the GDA approach could have serious consequences for regional development in Canada. It is bound to lead to duplication as both levels of government seek to launch projects in the areas most likely to be politically rewarding. The attempt to dovetail programs and projects is hard to achieve at best and will be particularly difficult in a competitive situation. Emphasizing competition jeopardizes the effectiveness of the activities of both levels of government. The Committee considers that the federal complaint regarding lack of recognition for its money it contributed was entirely justified. But we fear that the solution chosen by the federal government, while it may solve the problem of recognition, could do unintended harm by damaging the regional development program. We doubt that this is the federal aim and so we strongly urge reconsideration.

We see advantages for the federal government and no harm to regional development if it becomes involved in some direct delivery, as it has done in Nova Scotia. But it is essential that such participation be worked out in a collaborative atmosphere if the dovetailing is to be productive. We would reiterate that the Nova Scotia agreement, which solves the problem of recognition, was negotiated under an umbrella GDA. This approach should work with other provinces. Our Committee has considerable direct experience of provincial governments and we are convinced that in most instances it should be possible to work out arrangements to ensure a much higher level of recognition for federal contributions to regional development projects.

We have been careful to suggest only some direct delivery of projects by the federal government. This is an important qualification. Many projects require a considerable governmental apparatus to organize and supervise delivery. Although the regional operations of some federal departments are large enough to undertake such tasks, this would be far from true across the board. The Committee would not wish to see an expansion of the federal public service for the primary purpose of delivering projects in the provinces. Canada already has some duplication of function at the two levels of government, with the costs of this duplication being borne by the Canadian public. As a general principle, the Committee would be opposed to the direct delivery of any programs in the less developed regions of Canada where this would require additions to the federal public service.

A final concern relates to the proposed "regional development fund". We anticipate fierce competition among federal agencies for access to this pot of gold. We strongly urge that clear and strict guidelines be drawn up to restrict its use.

It is always difficult for a government to draw back. In this case it may be easier, because the government has spoken of negotiating new agreements to replace the GDAs. The name is not important. But it is critical in a federal state that the efforts of the two levels of government be co-ordinated. The GDA approach has accomplished this politically difficult task splendidly.

Because the federal and provincial governments share a common interest in regional development, as well as the powers necessary to promote such development, co-ordination of their activities in this field is essential. The General Development Agreements have been an effective instrument for promoting co-ordination. Accordingly, the decision of the federal government to allow the GDAs to lapse is unwise and should be reconsidered. The federal government should continue to co-ordinate its relations with provincial governments in promoting regional development through broad agreements, drawing on the positive features of the GDA approach:

1. **The new agreements must be explicit in setting out objectives, strategies, timetables, and the division of responsibilities among governments; they must be subject to periodic review and re-negotiation; and the nature of the future involvement of federal ministries should be specified as fully as possible, with a view to effective recognition and performance review.**

2. **Federal government complaints about the lack of recognition for its significant contributions to regional development are justified. However, the policy of direct delivery that has been suggested is only a partial answer to the problem. Direct delivery of programs by the federal government should be strictly within the GDAs, for if it is attempted outside them, we believe the results will be costly and unsatisfactory. To overcome the problem, the GDAs should contain an agreement with each province assuring the federal government of recognition for its contributions.**

SECTION FOUR

BUILDING FOR GROWTH

The shortage of private sector investment activity is both a cause and a legacy of underdevelopment. To the extent that this shortage reflects real economic factors — a deficiency in natural resources, distance from markets, climatic problems — government intervention is not called for. However, to the extent that the shortage reflects imperfections and biases in Canadian markets or is caused by the previous lack of activity in these regions, which has stripped them of their growth momentum, then we feel government intervention may be a necessary part of the overall development effort.

Typically, government assistance to investment has taken three forms— cash grants, tax relief and financing assistance. In this section we examine these alternatives and suggest certain principles to be adhered to when investment assistance is offered by governments.

CHAPTER 9

AIDING THE PRIVATE SECTOR: PRINCIPLES

Before discussing the specific nature of investment incentives, we want to establish and discuss certain principles that must guide policy makers and bureaucrats who contemplate using incentives for regional development.

PRINCIPLE 1: THE GOAL OF INVESTMENT INCENTIVES PROGRAMS MUST BE TO CREATE NEW INDUSTRIAL CAPACITY IN CANADA, NOT SIMPLY TO INDUCE EXISTING INVESTMENT TO RELOCATE FROM ONE REGION TO ANOTHER.

Canada is a land of opportunity for investment and development. It is important to maintain the openness and freedom of Canadian markets, and this clearly must include the markets for investment. Some investments will be extremely profitable and beneficial if located in certain areas and less profitable elsewhere. If incentives are used to alter the location decision, an inefficient and wasteful use of Canada's limited investment capacity will result. We simply cannot afford such waste.

The purpose of incentives should be to make possible and probable investments that in and of themselves make good economic sense. Due to conditions such as those noted above, the private sector may, in the absence of incentives, be unable or unwilling to undertake these investments and hence would overlook or forgo opportunities that could benefit all Canadians. Incentives are necessary complements to real economic forces, complements that reinforce rather than supplant the role of economic markets and decision makers.

PRINCIPLE 2: INCENTIVES SHOULD BE DESIGNED TO ASSIST THOSE OPERATIONS THAT CAN BECOME VIABLE IN THE FUTURE WITHOUT CONTINUING GOVERNMENT ASSISTANCE.

This principle may be thought of as the principle of non-dependency. Canadians can cite many examples where one government assistance payment has led to another solely to keep the assisted firm in business. This Committee, for example, has recently studied the case of Consolidated Computer Incorporated; over several years, more than $100 million of government funds went to sustain a single company — a company that ultimately failed. We have seen other cases in which loan guarantees, subsidies, and even governmental equity

investment have been used to prop up poor decisions, ultimately to no good purpose.

Artificially sustaining poor investments has several serious negative effects. The first is straightforward and often reported: public funds are wasted on a losing proposition rather than being used for a viable, productive end. The second effect is more insidious. The support of the ailing investment serves to camouflage the need for change and to tie up resources, especially skilled manpower, that could be employed in new, viable undertakings.

Finally, when the government moves in and rescues a losing operation, it reinforces the resistance to change throughout the economy. Attitudes form on the assumption that the government is always there to save the day, no matter what goes wrong, and it becomes politically difficult not to bail out more and more operations. Terminally-ill companies may be kept alive with life support systems after they cease to be economically viable.

This is simply not acceptable. Corporate failures are inevitable parts of our economic system, and governments must be prepared to allow companies to fail without prolonged support. This requires initial prudence and care in the design of incentive programs and the courage to resist pressures to sustain critically weak investments artificially.

PRINCIPLE 3: NEW AND ESTABLISHED FIRMS SHOULD BE EQUALLY ELIGIBLE FOR ASSISTANCE.

This Committee sees no reason to prefer new over old firms or industries, or vice versa, in the establishment of industrial assistance programs. There are no economic reasons for this form of discrimination. In even the least developed regions, there are established firms that, given some assistance and incentive, can be induced to evolve into efficient producers and can contribute to the ongoing process of development. There are also undoubtedly companies that, regardless of the amount of assistance given, are simply not viable in today's economy. Industrial assistance programs must be designed to allow new firms to establish themselves and become effective and to encourage evolutionary changes in existing firms.

Our economy, like Canadian society, operates on the basis of the equality of all participants. A preference for new investors would place existing firms at a disadvantage; a preference for the existing would block change and represent a triumph of the established over the new.

Guaranteeing this principle of equality will be difficult, but it may be assisted by the offsetting biases of decision makers. On the one hand, decision makers may prefer to assist existing firms because existing firms are in the best position to make concrete and full presentations and because the assistance may appear more secure. Other decision makers may favour assistance to new firms, especially if they offer the hope of new and exciting technologies and appear more glamourous — particularly to politicians. Opening a new plant is far more dramatic and newsworthy than baptising an expansion, but both can be equally valuable to the real economic health of the area.

PRINCIPLE 4: INCENTIVES SHOULD NOT CREATE A PREFERENCE BY THE INVESTOR IN FAVOUR OF THE USE OF MORE OR LESS CAPITAL OR LABOUR.

In the past, some incentives to assist investors have been linked to the number of jobs that could be guaranteed. This creates a bias toward investment that is low in capital utilization. In other instances, the incentives have been based on the amount of capital invested, which creates the opposite bias. (The Regional Development Incentives Grants had elements of both.) In either case, investors can be led to make sub-optimal economic decisions, which can ultimately reduce the total benefits of the investment.

The Committee heard conflicting testimony on this issue. The debate appears to emanate from two divergent approaches. One view holds that the problem of regional underdevelopment is a matter of insufficient employment. From this it follows that the remedy lies in creating jobs by tilting government incentives programs to induce employers to use relatively more labour and providing preferential treatment to labour-intensive industries and firms.

The second view is based on the idea that regions are uncompetitive because of the relative lack of capital investment. From this perspective, it is argued, the remedy lies in new investment in plant and equipment, with incentives being offered to encourage their acquisition.

The Committee shares neither of these extreme views of the needs of the least developed regions. Our position is that development must be based on the best possible economic decisions and must reflect market forces. The relative costs and returns from the employment of more or less labour or the use of more or less machinery and equipment must be accurately weighed by the investor. If government policies distort the bases of decisions by subsidizing wages or by making capital relatively less expensive, poor investment decisions may result. Although the implications of the poor decision may not be felt immediately, especially while the government program is in place, the end result would be an investment that is not viable in the long run without ongoing aid. Obviously, this is not acceptable.

PRINCIPLE 5: INVESTMENT INCENTIVES MUST BE CAPABLE OF BEING ADMINISTERED EFFICIENTLY FROM BOTH THE GOVERNMENT AND BUSINESS PERSPECTIVE AND MUST NOT BE SUBJECT TO ABUSE BY EITHER BUSINESS OR POLITICAL FORCES.

Program administration is an element that is all too often considered only after a program is put in place. But the administration of incentives programs is far too important to be treated in this manner. For governments, poorly administered programs waste funds and result in significant losses of political credibility. From the business perspective, bad administration causes frustration, costly delays and application procedures, ill-founded decisions and, for some, the opportunity for fraud. We believe strongly that the administrative qualities of various programs must be considered from the very outset of the decision-making process.

To achieve efficient administration, it is essential to begin with an administrable program with reasonable goals and mechanisms designed to be amenable to bureaucratic and business use. Moreover, as programs mature and

more is learned about their characteristics, governments must be ready to alter those elements preventing effective and efficient administration.

The use of incentives for promoting regional development should be guided by five broad principles:

PRINCIPLE 1: **The goal of investment incentives programs must be to create new industrial capacity in Canada, not simply to induce existing investment to relocate from one region to another.**

PRINCIPLE 2: **Incentives should be designed to assist those operations that can become viable in the future without continuing government assistance.**

PRINCIPLE 3: **New and established firms should be equally eligible for assistance.**

PRINCIPLE 4: **Incentives should not create a preference by the investor in favour of the use of more or less capital or labour.**

PRINCIPLE 5: **Investment incentives must be capable of being administered efficiently from both the government and business perspective and must not be subject to abuse by either business or political forces.**

CHAPTER 10

THE TOOLS

Most investment incentive programs fall into one or more of three basic categories: cash grants, tax advantages and financing assistance or concessions. Canadian governments have tried all three approaches.

The Cash Lever

The direct grant is the most straightforward of all mechanisms to influence investment decisions. In return for making an investment in a specified location, the investor receives a cash grant from the government. This in effect lowers the cost of the investment to the investor and therefore reduces his fixed costs and increases the potential rate of return on the investment.

One program of this type, the Regional Development Incentives Act (RDIA), was used extensively by DREE and was strongly supported by witnesses before the Committee. Mr. Tom Kent was one of these: "In short, I am unregenerate in saying that I do not see how we could seriously attempt regional development, in our kind of economy, without capital grants on the principle of RDIA. That is not to say that the program has been all it should in detail or in administration. But I doubt that any such defects are the main reason why the results have been disappointing." (4-30-13:11)

The RDIA program, which is a continuation of the Area Development Incentives Act, was created in 1965. Now under the administration of the Department of Regional Industrial Expansion, incentive grants (and loan guarantees) are provided, after consultation with the provinces, for the establishment, expansion or modernization of industry in regions designated as eligible and "determined to require special measures to facilitate economic expansion and social adjustment."[1] The minister responsible for the RDIA has discretionary powers in the approval of incentive grants and loan guarantees. Decisions are intended to be based primarily on the contribution of the industry to economic expansion and social adjustment in the region. However, other

[1] Regional Development Incentives Act, 1976, Chapter R-3.

considerations, including the costs to provincial or municipal governments for the provision of services or utilities, the contributions of other federal departments, environmental concerns, and the availability of resources, have influenced past decisions. Between 1969-70 and 1980-81, DREE expended $989.3 million on RDIA.

Although cash systems such as the RDIA can be carefully molded and altered to meet changing conditions and applications, they have been criticized heavily from one perspective: they open the door for considerable bureaucratic meddling in the operations and plans of private sector operations. In the words of the Canadian Manufacturers' Association:

> Many manufacturers object strongly to the degree of involvement by public servants that is implied by this [cash grants] approach. In part the basis for this objection is the lack of confidence in the ability of economic planners to make the right decisions. (1-32-24A:4)

However, in a subsequent letter to the Committee, the CMA noted that grants are not always an inadvisable policy tool:

> ... grants can and should be used in a number of circumstances. ... federal grants have been critical to the development of Canada's fishing industry and are a key reason for Canada's world prominence in this field. Smaller manufacturers, in particular, with cash flow problems can often make use of a direct infusion of funds.[2]

The Tax Lever

The use of tax-based incentives to investment in certain regions was favoured by several witnesses, including the Canadian Manufacturers' Association. The principal advantage of the tax lever as an aid to investment is the ease with which it can be applied. No special systems need be developed, and bureaucratic intervention is minimized.

A tax-based lever employs the rules of the income tax system to make investments in certain areas more profitable, after tax, than would otherwise be the case. For example, the system could be operated on the basis of generally lower tax rates for income generated in certain regions. It could, as has been done, offer special rules pertaining to the depreciation of capital investment where that investment is located in designated regions. Or, the tax system can be used as the mechanism to deliver grants, in the form of tax rate reductions, based on the value of investment, again in specified regions. Other systems could also be devised, including those that would allow greater write-offs for wage costs, thus subsidizing employment.

In the October 28, 1980 budget, the Minister of Finance announced a "Special Investment Tax Credit Program" intended to encourage investment in new manufacturing ventures in those areas of the country designated as suffering most from unemployment and low income (See Table 10-1). Only 5

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[2] Letter to the Chairman from Mr. J.L. Thibault, April 27, 1981.

per cent of the population resides in the designated regions, which include certain census divisions in each of the ten provinces, plus all of Yukon and the Northwest Territories. The Minister of Finance discussed this program with the Committee and agreed that it offered an interesting opportunity to test the effectiveness of tax credits as investment incentives.

Table 10-1
The Special Investment Tax Credit Program

Eligible Industries:	Manufacturing and processing industries as defined under the Regional Development Incentives Act.
Eligible Investments:	buildings, machinery and equipment used primarily in manufacturing or processing as defined in the Regional Development Incentives Act.
Limits:	the lesser of up to 50% of eligible capital costs incurred *or* $15,000 and one-half of the remaining federal tax payable.
Approval:	No prior approval required.
Term of the Program:	To the end of 1985, although credits may be claimed for up to 5 years afterwards.
Administration:	Under guidance of the Department of Regional Economic Expansion through the corporate income tax system.

Note: Use of this credit in no way affects a firm's eligibility for other industrial development aid.

In addition to this special program, a regionalized investment tax credit program was established in 1978. Tax credits were set at varying rates: 20 per cent in the Atlantic provinces and the Gaspé, 10 per cent in other regions designated under the RDIA program, and 7 per cent in the rest of the country. Moreover, tax incentives designed to promote research and development have been regionally differentiated.

The Financial Lever

The availability and cost of credit are important considerations in investment decisions, and any actions that either lower the costs or improve the supply or stability of credit to a project may very well make the difference between that project being shelved and going ahead.

The provision of financial assistance was supported by witnesses appearing before the Committee for several reasons. Some argued that public support of certain projects is essential since private financiers cannot take the risks that are sometimes necessary to support economic development in the least developed regions. Others suggested that Canadian financiers possess 'blind spots' regarding opportunities in the least developed regions. In either event, witnesses claimed that government-provided financing is necessary to correct these flaws in the market system.

The major Canadian banks are the focus of regional wrath, especially in those parts of Canada where it has been believed that the banks have simply funnelled funds away into more secure projects in central Canada. While the Committee is satisfied that this banking bias is more apocryphal than true (see Table 10-2), risky ventures in all parts of Canada naturally experience significant difficulty in finding financing. Banks, like any prudent business, seek the best combination of risk and returns in their investments; to the extent that investments in the less developed regions are perceived by Canada's financiers as more risky, development has lagged.

Table 10-2
Regional Distribution of Economic and Banking Activity — 1979
(Percent of Canadian Total)

	Employment	Gross Domestic Product	Total Bank Loans	Total Bank Deposits	Total Bank Branches
	%	%	%	%	%
Atlantic	7.6	5.9	6.1	5.2	7.9
Quebec	25.1	23.1	19.2	17.8	21.8
Ontario	38.7	37.2	37.0	43.4	38.7
Manitoba	4.4	3.9	4.5	4.2	4.8
Saskatchewan	4.0	4.3	3.8	3.8	5.0
Alberta	9.4	13.5	14.7	11.2	9.6
British Columbia	10.9	11.6	14.3	13.2	12.3

Source: Submission of Dr. E.P. Neufeld, Royal Bank of Canada (1-32-6A:13).

The government has, for quite some time, assisted business development through the provision of financial aid. At times these have been band-aid rescues, such as the efforts made in connection with the Chrysler Corporation and Massey-Ferguson. However, in other policy programs the efforts have been more systematic. One in particular stands out — the Federal Business Development Bank (FBDB).

The FBDB was created in 1974, succeeding the Industrial Development Bank, to provide supplementary financial assistance to small and medium size businesses that are unable to obtain financing from other sources on reasonable terms and conditions. It is important to note that although the Bank does not offer subsidized loans, it tends to assume greater risks than other lenders and deals with newer and less mature enterprises than will private financial institutions. The Bank also provides extensive management assistance, includ-

ing Counselling Assistance to Small Enterprises (CASE), management training for owners and operators, and information for business people. Financial assistance is provided in the form of loans of up to fifteen year terms, interim (bridge) financing, loan guarantees, and equity financing.

Under the FBDB Act, the Bank is restricted with regard to the total funds it may borrow to finance its operations. Until 1980, the limit was ten times its capital, to a maximum amount of $2.2 billion in outstanding loans. In June 1980, an amendment to the Act increased the limit to twelve times the capital. The interest rates charged by the FBDB are similar to those of commercial institutions, but both fixed and floating rates are available. Security for the loans is generally a mortgage on the fixed assets of the business and/or a floating charge on other assets. In the case of equity financing, the Bank usually purchases common or preferred shares, or acquires the right to buy such shares in the future, and often assumes a seat on the company's board of directors. It does not, however, become involved in a corporation's day to day operations.

It is important to keep the very substantial size of this program in perspective in order to appreciate its regional development potential (See Table 10-3). During 1980-81, the Bank authorized $484 million in loans and $13.6 million in equity investments, compared with DREE expenditures under the Regional Development Incentives Act of just 24 per cent of this amount — $117.8 million—in 1980-81. In fact, the potential contribution of the FBDB to regional development has been reflected in the past by the assignment to the Bank's board of directors of a representative of the Department of Regional Economic Expansion.

Table 10-3
Federal Business Development Bank
Regional Operations 1980-81

Region	Loans Authorized	% of Total Loans	Equity Investment	% of Total Equity
Atlantic	$ 39,767,000	8.2	$ 1,933,000	14.2
Quebec	113,231,000	23.4	4,304,000	31.6
Ontario	145,122,000	30.0	3,358,000	24.7
Prairie and Northern	79,343,000	16.4	1,494,000	11.0
B.C. and Yukon	106,576,000	22.0	2,528,000	18.6
Total	$ 484,039,000	100.0	$ 13,617,000	100.0

The European Economic Community has also used financial aid to facilitate regional development. The European Investment Bank (EIB) was established in 1958 under the Treaty of Rome, "in part to finance projects to link member countries more closely together, and only in part as a mechanism to facilitate the mobility of development capital to poorer areas — not at subsidized rates, but with the requirement that its own funds be raised on the

capital markets."[3] Since its creation, however, over 70 per cent of the EIB investment has gone to the less developed regions of the European Community. In 1980 alone, approximately $3.8 billion (U.S.) was invested in industrial projects, energy and infrastructure in member countries (or in some cases, in external projects).

Do They Work?

It was most frustrating for the Committee, which held meetings with academics, business leaders, bureaucrats and cabinet ministers, to discover that there is no agreement on the utility of these policy instruments to influence the course of investment. The Committee was disturbed to discover that the evaluations and empirical underpinnings of the effectiveness of these various instruments are virtually non-existent or so inadequate as to render any judgements meaningless.

We are not alone in reaching this conclusion. For example, Professor Dan Usher of Queen's University concluded a study of the efficiency and efficacy of regional investment incentives by referring to lingering doubts about investment incentives.

> ... the absence of solid evidence that investment in the designated regions is really increased, the even greater doubt about employment, the effects on distribution of income among persons, the possibility of inequity in the governments dealings with firms, the probable reduction in national income in Canada as a whole, and the lack of any real assurance that modernization and progress are fostered in the designated regions... [4]

The Canadian Manufacturers' Association criticized cash grants, as we noted above. But others are critical of the tax-based operations. For example, in a study sponsored by the Canadian Tax Foundation, Professor Richard Bird suggests: "...it would appear the better part of wisdom is to refrain from still further expansion and elaboration of Canada's already complex and important system of [tax-based] investment incentives".[5] He urges policy makers to "be much more cautious in accepting the assurances of political and business leaders that all incentives to investment are, more or less by definition, bound to be good. ...the theoretical and empirical bases upon which incentives have generally been based are extremely weak...".[6]

This situation should be remedied. The federal and other governments direct billions of dollars each year into these and other related programs

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[3] R.I. McAllister, *Lessons from E.E.C. Regional Policy for Canada* (October 18, 1980), p.14.

[4] Dan Usher, "Some Questions about the Regional Development Incentives Act", *Canadian Public Policy* (Autumn 1975), p.575.

[5] Richard M. Bird, *Tax Incentives for Investment, the State of the Art*, Canadian Tax Foundation, Canadian Tax Paper no. 64, (November 1980), p.ix.

[6] Bird, *Op. cit.*, p. 57.

without assurances that the objectives of the programs are achieved or any solid knowledge of the effects of the program.

We know it is extremely difficult to make economic assessments that will satisfy everyone in terms of methodology and rigour. Nevertheless, extensive efforts must be made, and only governments have access to the confidential and sensitive information, including tax data, necessary for a thorough examination. To remedy this situation, the federal and provincial governments should initiate, fund and provide complete co-operation with a series of studies on the effects, efficiency and efficacy of the many programs used to carry out industrial policies in Canada. The studies should not be conducted within the government, but government resources, particularly governmental data, should be made available to researchers.

A Matter of Principles

Even though the lack of reliable assessments limits our capacity to comment on the effectiveness of the three tools, we have some observations about how they relate to the five principles of investment assistance we established in Chapter 9.

PRINCIPLE 1: The creation of additional investment

Cash grants and financing assistance can be used to enable the creation of investment that would not have otherwise taken place, or they may be used simply as bribes to shift the location of investment that would have gone forward without any assistance. One particularly regrettable manifestation has involved competition among governments — federal, foreign and provincial — to land a particular investment. In these battles, the winner is inevitably the investor being pursued; the loser is the taxpayer.

The tax system offers *a priori* advantages in encouraging new investment. By increasing the potential after-tax return on a project in a given region, tax incentives induce some additional investment. From the administrative point of view, the problem is to define the conditions of eligibility so as to exclude investments that would have taken place anyway. Otherwise, the taxpayer is bearing an unnecessary cost.

PRINCIPLE 2: Project viability

Because cash grants and financial assistance are usually administered through a procedure involving application and review, decision makers have the opportunity to investigate the viability of the proposed investment. This investigation should be conducted in a hard-headed, businesslike manner. To guard against the danger that a fatally ill project will become a dependent of the government, we believe that any project that receives start-up assistance should normally only be eligible for further government aid for the purpose of expansion.

When the government has offered assistance by way of a loan, it is important that the cost to the recipient company should be clearly specified. The recent period of high and variable interest rates has highlighted the problem. We believe that government financing assistance should be available at a fixed interest rate for a fixed time period. While this approach may increase the cost of such programs, it reduces the uncertainty to the recepient and avoids the risk that the investment decision will be undermined by an unexpected increase in the rate of interest. At the same time, the government should not, in such a circumstance, provide additional assistance in the hope of recovering its loan. Throwing good money after bad is neither good politics nor good economics.

Tax-based incentives offer exceptional potential with regard to not committing the government to future assistance. In most instances, only profitable companies, that is, those with taxable incomes, can benefit from a tax-based program. In a sense, the government is assured of backing a winner. But there are loopholes. The tax system does permit companies with several bases of operation to apply the tax advantages of one investment to reduce tax payable on income earned in another operation. A firm with a profitable operation in central Ontario could take advantage of an accelerated depreciation scheme applicable to investments in the Atlantic provinces even if the latter investment operated at a loss. Once the tax advantages had been exhausted, the tax-assisted investment could be shut down, its usefulness as a tax loss no longer of benefit to the company's overall profit position.

PRINCIPLE 3: Equality of new and established firms

The very feature that makes tax-based programs desirable from the standpoint of project viability also renders them much less effective in terms of distinguishing between old and new investment. Especially in the most important first years, new investors generally lack a taxable income base against which to use tax-based assistance. Hence, only established investors, with income generated from a number of sources, are able to benefit from this system.

There are ways to avoid this problem, but they could encourage the increased support of losing operations. One solution is to offer refundable tax credits, which a firm could use against tax payable or, if no tax were payable, receive as a refund. Another system, one used in the United States where it has received mixed reactions, is to allow the investor to 'sell' his tax credit to another firm for use against its taxable income. The best solution might in fact be a hybrid system, which would make available grants and/or financing assistance to new firms and tax assistance to established firms.

PRINCIPLE 4: Capital and labour equality

When a business applies for a grant or for financial assistance, some formula must be used to determine the level of assistance to be granted. This formula can determine the extent to which the grants or loans will create biases with respect to capital or labour. Although the effects on labour and capital have been the criteria most commonly employed in grant and financial systems,

they need not be the only criteria for government assistance, nor need they create biases if well employed. For example, if the expected value of output were the basis for establishing grant eligibility, the system would not be biased with respect to production technologies. Moreover, by using comparable estimates of the amount of wages resulting from an investment and the capital employed, with appropriate adjustments to reflect the flow versus stock nature of labour and capital, unbiased formulae could also be developed. Reducing bias in a tax-based system may, however, be even more difficult than doing so in a grant or loan system. First, the basic corporate income tax itself creates biases with respect to the use of capital and labour. These biases are due to the need to make simplifying assumptions with respect to capital depreciation. Second, although the tax system must be applied uniformly to all companies, the reality is that, due to structural and operational differences among firms, the system affects their behaviour differently.

In short, barring major innovations in the use of the corporate tax system, it may well be impossible to eliminate the bias the system could generate with respect to the use of capital and labour. Nevertheless, we believe that through careful analysis and application, it may be possible to reduce the bias. This should be an important goal in designing any new tax-based investment assistance system.

PRINCIPLE 5: Administrative efficiency

Programs based on grants and financing can and often have been administratively inefficient. They usually require extensive application and review procedures which at times result in needless delays and expense. It is important that information required in applications be standardized to match that required for any ongoing business need such as a loan application. Procedures should be developed to handle applications within short and pre-specified time frames.

The concern of the Canadian Manufacturers' Association regarding bureaucratic meddling in business decisions is difficult to avoid. But with streamlined decision making based on sound business processes, and with a continual awareness of the potential problem, we feel that the problems can be minimized.

Tax-based incentives are easily the most efficient of all the systems. The necessary information is collected by firms as a matter of course, the tax collection system already exists, and no additional bureaucracy is required in either industry or government.

The three basic categories of investment incentives are cash grants, tax advantages and financing assistance. Although the Committee analyzed each category and has suggested some principles to be observed in their use, it found that due to the inaccessibility of data, especially tax data, evaluations of their relative effectiveness in the less developed regions are inadequate. To remedy this situation, the federal and provincial governments should initiate, fund and provide complete co-operation with a series of studies on the effects, efficiency and efficacy of the use of investment incentives in the less developed areas. The studies should not be conducted within the government, but government data should be made available to researchers.

SECTION FIVE

STRENGTHENING THE MARKET SYSTEM

If Canada's economic markets, including the markets for goods, services and labour, can be made to function more efficiently, the economic development of even the least developed regions should be facilitated. In this section, we focus on aspects of current government policy that may be detracting from efficient economic markets. Specifically, we consider the important roles and implications of transfers from governments to individuals and between governments and the effects on markets of trade policies, competition policy and the regulatory system.

CHAPTER 11

THE PERSONAL TRANSFER SYSTEM

If Robin Hood were alive today, he might very well applaud the operation of Canada's extensive system of transfers of money from government to individuals and from governments to other governments; or he might be shocked by just how far the system has gone.[1] Transfers from the federal government to individuals and provincial and local governments comprise over 58 per cent of total federal revenues. In some dependent provinces, these transfers make up over 49 per cent of total government revenue and almost 20 per cent of personal income.[2]

Transfers are integral components of the sharing of Canada's prosperity. They guarantee certain minimum standards of living, protect the welfare of all Canadians, and afford all provinces the ability to provide reasonable levels of services to their citizens. We are not concerned with whether transfers should continue. However, we are concerned with the form and extent of the transfers and, in particular, with their effects on the Canadian market system and hence regional development. In taking from the rich to give to the poor, Robin Hood had relatively little concern for the long term effects of his transfers on recipients and donors. We cannot afford his blessed single-mindedness.

Transfers represent significant means to improve living standards and other conditions in the less developed regions and hence can improve their development prospects. However, to the extent that transfers distort the functioning of natural economic adjustment mechanisms, they can also hinder development and lead to inappropriate social and economic policy decisions. The objective should be to retain those properties that facilitate development and efficiently implement social and other programs, while purging the system of those that block normal economic growth.

This report does not consider the transfer system from the same perspective or in the same detail as that of the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements. We commend their report to the

[1] This analogy was well employed in W. Irwin Gillespie, *In Search of Robin Hood: The Effect of Federal Budgetary Policies During the 1970s on the Distribution of Income in Canada* (C.D. Howe Research Institute, 1978).

[2] For the two northern territories this figure reaches as much as 83 per cent. These figures apply to 1979.

interested reader for excellent descriptions of the various transfer programs.[3] Instead, our focus has been on the implications of the existing system for regional economic development.

Transfers to Individuals

A wide array of federally-sponsored programs (see Table 11-1) affect individual Canadians directly, ranging from the Canada Pension Plan and Old Age Security to Family Allowance, from home insulation programs to personal income tax allowances.

Table 11-1
Benefit Expenditure by all Levels of Government and Personal Income by Province
(Income Security Programs, 1977-78)

Jurisdictions	Total Benefit Expenditures ($millions)	Personal Income ($millions)	Benefit Expenditures % of Personal Income	Benefit Expenditures Per Capita ($)
British Columbia	$ 1,900	$ 20,332	9.4%	$ 771
Alberta	1,032	14,654	6.9%	534
Saskatchewan	610	6,650	9.4%	651
Manitoba	671	7,076	9.5%	652
Ontario	5,626	67,853	8.3%	674
Quebec	4,878	43,017	11.3%	776
New Brunswick	657	3,829	17.1%	956
Nova Scotia	651	4,900	13.2%	779
Prince Edward Island	113.2	604	18.7%	942
Newfoundland	497	2,839	17.5%	883
Northwest Territories	19.3	—	—	—
Yukon	10.8	—	—	—
TOTAL	16,718.6*	$172,370		
AVERAGE			9.6%	$ 710

* Includes 53.3 million not attributed by province.
Source: *The Income Security System in Canada: Report for the Interprovincial Conference of Ministers Responsible for Social Services*, The Canadian Intergovernmental Conference Secretariat, September 1980, p. 47.

Most of these programs are geographically neutral; benefits to individuals and the application of the program do not vary according to place of residence (although some regions benefit in total more than other regions due to demographic and other features) or occupation. However, some programs are decidedly not neutral in this way; the benefits available to and received by individuals vary according to where they live and/or what they do.

[3] See *Fiscal Federalism in Canada*, Parliamentary Task Force on Federal-Provincial Fiscal Arrangements (House of Commons, 1981).

It is with regard to the latter programs that our witnesses had considerable reservations in terms of their implications for national economic efficiency. Most generally, they argued that bÿ affording special treatment, the federal government distorts the functioning of the market economy, creates false bases for individual decisions, reinforces economic inefficiency, and exacerbates the structural causes of regional disparities.

Unemployment Insurance

The regional diversity of the Canadian economy and the pervasiveness of economic disparities have meant that opportunities for Canadians to avail themselves of the various assistance programs operated by government differ from place to place. Unemployment insurance, for example, is available only to those unemployed Canadians who qualify by having worked for a certain period of time in the preceding 52 weeks. Applied all across Canada, these rules make it relatively more difficult for persons most needing the program, those in high unemployment areas, to qualify. As a result, the government has added to the program a regional dimension, which reduces the requirements for qualification and extends the eligible benefit period for individuals living in areas of high unemployment (See Table 11-2). In addition, a special program has been created to allow fishermen to receive unemployment insurance payments. In theory, these changes help to reduce the inequities that would result from the uniform application of a national system. A less biased system should be the result and, again in theory, the impact on national development of the unemployment insurance system should prove more positive.

Table 11-2
The Regional Dimension of Unemployment Insurance

Regional Unemployment Rate (%)	Required Weeks of Insurable Employment	Maximum Labour Force Extended Benefit	Maximum Regionally Extended Benefit	Total Weeks of Eligibility After 32 Weeks of Employment
				Total
6 and Under	14	28 weeks	0-8 weeks	28-36
6-7	13	28 weeks	10-12 weeks	38-40
7-8	12	28 weeks	14-16 weeks	42-44
8-9	11	28 weeks	18-20 weeks	46-48
Over 9	10	28 weeks	22 weeks	50

According to witnesses appearing before us, however, the system is anything but neutral in its effects on the economy. Dr. Thomas Courchene commented forcefully on the matter:

> In the late 1950s the federal government decided to allow self-employed fishermen to become eligible for unemployment insurance. This was ... a most unfortunate step, in my opinion. Consider the impact on Newfoundland. Not only has it served to increase the rate of unemployment as unemployment insurance has generally, but as

well it has hampered the rationalization of the fishing industry. The program has helped maintain the ... labour intensive approach to fishing when this industry is everywhere becoming more capital intensive. In short, there are today more fishermen and their operations are smaller in nature than the economics of the industry dictates. Suppose Ottawa had at the same time extended this privilege to self-employed farmers in Saskatchewan ... this Prairie province would currently have a much larger population, the farms would be much smaller and less efficient and most likely the environment of the Prairie provinces would be changed ... I think Saskatchewan has a lot to be thankful for in that farmers are not treated in the same fashion as fishermen, and Newfoundland is not so lucky. (4-30-5:8-9)

The Economic Council found similar problems with this program when they studied the Newfoundland economy:

> The rules [of the Fishermen's Unemployment Insurance Program] also encourage workers to seek seasonal employment to qualify for benefits and, even more important, they provide incentives to employers to make their operations more seasonal ... which in turn lowers average capacity utilization and productivity. The rules encourage people to remain in, or to move back to, rural areas, where they can create their own jobs in fishing in order to qualify for unemployment insurance ... These incentives slow the urbanization process and reinforce a residential pattern that works against job creation and the efficient production and distribution of goods and services. The rules also provide an incentive for persons who lose their jobs in low-unemployment regions like Ontario or Alberta to move back to Newfoundland, despite its high unemployment.[4]

Nevertheless, Professor Courchene also commented on a positive note:

> The point I am making is not that we should not help the fishing industry. If it is the case that the fishing industry merits separate treatment then let us go ahead and give it separate treatment. It should be relatively easy to work out an incentive and subsidy system that embodies an incentive to work and a rationalization of the industry. Unemployment insurance does neither, and it has left the fishing industry in a state where it is presently not equipped to take advantage of the 200-mile limit and is naturally seeking further federal subsidies. So it is a question of the form of help in this case. (4-30-5:9)

The Economic Council also suggested a number of alternatives, ranging from a full guaranteed annual income system to modest changes in the existing system:

> Fortunately, there is a fairly wide spectrum of alternative approaches to income maintenance that would be more effective than the current system of regionally extended and fishermen's benefits under the

[4] The Economic Council of Canada, *Newfoundland, op. cit.*, pp. 16-17. For a fuller description of the Council's views, and a review of their proposed alternatives, see *Ibid.*, pp. 149-154.

current unemployment insurance system. Moreover, many of them could be readily financed within the budget of federal transfers currently being made to Newfoundland.[5]

Most recently, the Task Force on Unemployment Insurance, Employment and Immigration in the 1980s concluded that the eligibility requirements for unemployment insurance, which vary regionally, may themselves contribute to poor labour market development and operation:

> Program data suggest that the current basic entrance requirements, especially in the high unemployment areas, may be too low. For example, when the 10-to-14-week variable entrance requirement was introduced in 1978, 87 per cent of people affected in the Atlantic provinces found the two extra weeks needed to qualify and 40 per cent of those affected elsewhere found the up to six weeks they needed. And when the entrance requirements for new entrants and re-entrants were raised to 20 weeks in 1979, there was an immediate, sharp rise in the number of claimants applying with exactly 20 insurable weeks, especially in the Atlantic provinces. As an example, the number of claims established in New Brunswick with exactly 20 insurable weeks virtually doubled between 1978 and 1980.... [These findings] suggest that economic circumstances in some areas and industries (particularly seasonal industries) are such that workers, acting in their own best interests, may be induced by UI program design into short work attachments because there are no built-in incentives to work longer.[6]

Clearly, individuals in the labour force base their choices on signals the market creates, and unemployment insurance benefits are among these market signals. As a result, labour supply conditions are altered and, to a certain extent, employers pattern their hiring and production plans accordingly. In the end, a reasonable effort to cushion the hardships faced by those in the least developed areas results in inefficient economic decisions by individuals and businesses and ultimately causes prolonged dependency and retarded growth. Individuals gain in the short run; the region loses in the long term.

The lesson we have drawn from this example illustrates the problem confronting the government in attempting to balance the desired uniformity of national programs against the diverse regionality of Canada. A uniform national program may negatively influence economic behaviour due to its inappropriateness or inequity in application in certain regions. Conversely, efforts to tailor national programs to regional conditions may in the end do more harm than good. There is no golden rule to be followed by the federal government in terms of its transfers to individual Canadians. Care and caution, and an awareness of the full scope of the implications of transfer programs, are essential. We believe strongly that government transfers to individual Canadians should be equitable in their application to all Canadians, regardless of their

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[5] *Ibid.*

[6] *Unemployment Insurance in the 1980s*, The Task Force on Unemployment Insurance, Employment and Immigration Canada, (July 1981), p. 47.

place of residence, and be designed to result in a minimum level of distortion to the economy as a whole, to individual sectors, and to the decisions made by the recipients of the transfers.

With regard to unemployment insurance, we can be a little more specific. Based on the evidence, the program is clearly distorting the functioning of the economy and mitigating against sound economic develoment, not just in the poorest regions but in all of Canada. In our opinion, the existing system of unemployment insurance should be revised to eliminate its tendency to distort patterns of work and to contribute to regional stagnation.

While we are not recommending that individuals be sacrificed on the altar of economic efficiency, we are suggesting that the side effects of the current system create economic conditions that actually work to the detriment of many Canadians and mitigate against the economic growth and development that would contribute to the well-being of all. We recognize as well that in some circumstances, it is only reasonable that assistance, especially of a short term nature, be geographically limited in its availability. Disaster relief is one obvious example. Assistance related to plant shutdowns that severely affect certain areas but not others might be another. We would, however, repeat our earlier assertion: this assistance should be designed to have a minimal effect on the normal operation of the economy.

Transfer payments to individuals help to improve living standards in the less developed regions of the country and thus contribute to regional development. However, they can interfere with worker mobility and they impede the adjustment of costs in the lagging regions which, if not allowed to occur, discourages new investment. Although most transfer payments are geographically neutral, some are not; these distort the functioning of the market economy and exacerbate the structural causes of regional disparities. The unemployment insurance program is the best example of this tendency, for it results in inefficient decisions by individuals and businesses, thus affecting work patterns and mobility, leading to dependency and retarding growth. It should be revised or replaced by an alternative system of income replacement that helps to preserve the work ethic and does not discourage worker mobility.

CHAPTER 12

TRANSFERS TO PROVINCES

One of the most important concepts of the Canadian federation is the sharing of prosperity among Canadians regardless of where they live. Throughout our history, this sharing has been accomplished in good part through a relatively simple mechanism — the transfer of revenues gathered by the federal government from tax sources throughout Canada to provincial governments for use in serving the needs of their populations. At Confederation, the provinces surrendered their rights to impose indirect taxes and tariffs and excise duties. At the time, these were the principal sources of revenue, and the federal government was required to make payments to the provinces on a fixed amount per capita in order to enable the provinces to meet their constitutional responsibilities. Because the richer areas generated more of the income, but received only the same fixed per capita grant, this system acted in good part as an equalizing measure.

Over time, this per capita transfer arrangement has been supplemented by a wide range of programs of transfers from the federal to provincial governments, including an important and now constitutionally enshrined equalization system. Table 12-1 illustrates the present effects of this multitude of transfers. The second table shows provincial revenues per capita from all sources, per capita expenditures, and a comparison of the overall average tax rates levied by each province to obtain its own-source revenues.

These tables illustrate the importance of the equalization system and other federal transfers to provincial governments. Yet they also demonstrate that there are still considerable differences among the provinces in terms of their tax rates and revenue capacities. For example, without federal transfers, governments in Prince Edward Island would have revenues of just 54 per cent of the national provincial average; with equalization included, this value rises to 82 per cent of the average, and when other transfers are included, the provincial and local governments of PEI have available revenues equal to 96 per cent of the national average. When these transfers are all incorporated, Alberta still has revenues of over twice that national average, and the Nova Scotia government has just 81 per cent of the per capita revenues available to the government of British Columbia. On the taxation side, whereas Alberta imposed taxes at just 54 per cent of the national average, residents of Quebec were taxed at 22 per cent and Manitobans at 16 per cent above average. Thus,

while equalization and other transfers reduce gaps between provinces, they are far from eliminated.

Table 12-1
Indices of Provincial-Local Fiscal Capacity, 1979-80

Province	Own-Source Revenues*	Own-Source Revenues Plus Equalization	Own-Source Revenues Plus All Federal Transfers
Alberta	241	224	202
British Columbia	120	112	109
Saskatchewan	99	96	98
Ontario	91	84	85
Quebec	77	85	90
Manitoba	75	86	89
New Brunswick	63	83	90
Nova Scotia	63	83	88
Newfoundland	59	84	93
P.E.I.	54	82	96
All provinces	100	100	100

* Based on total provincial and local revenues from own sources, subject to exclusions for interest revenues of provincial governments and all non-tax revenues of local government.
Source: Department of Finance, Federal-Provincial Relations and Social Policy Branch.

Table 12-2
Summary of Indices of Provincial-Local Fiscal Capacity, Per Capita Expenditures and Tax Effort, 1978-79

Province	Fiscal Capacity (Own-Source Revenues Plus all Federal Transfers)	Per Capita Expenditures	Tax Effort (Actual Revenues)
Alberta	196	124	81
British Columbia	104	99	96
Saskatchewan	99	100	101
Prince Edward Island	98	96	93
Quebec	92	90	100
Newfoundland	92	110	121
Manitoba	91	81	91
New Brunswick	90	89	97
Ontario	89	88	92
Nova Scotia	87	92	101
All provinces	100	100	100

Source: Department of Finance, Federal-Provincial Relations and Social Policy Branch.

Equalization

In fiscal year 1980-81, the federal government spent some $3.3 billion on a program that far too few Canadians understand. This program is equalization, and it is an important component of the current fiscal arrangements between the federal and provincial governments. Moreover, it is the largest federal program intended to ameliorate regional disparities in Canada.

The equalization system of today began primitively in 1957 when it cost the federal treasury only $136 million. Since then the program has been expanded; events have combined to increase the level of equalization to roughly 29 per cent of all federal transfers to provincial governments, or 5.4 per cent of total federal expenditures. These payments are directed to only seven provincial governments, those with the lowest tax bases according to a system of comparison devised by the Department of Finance.[1]

From the perspective of regional development, we heard relatively little criticism of the equalization system. In fact, it was often viewed as an essential part of the Canadian federation. In general, we agree with this assessment. If Canada is to remain united, some form of equalization must continue.

Despite its obvious importance, however, the goals of the equalization system remain something of an enigma. Witnesses before the Committee described these as being to enable provincial governments to provide either adequate levels of services or comparable levels of services. Even the constitution, which now enshrines the principle of equalization, does so in words that can be interpreted only by the Supreme Court:

> Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that the provincial governments have sufficient revenues to provide reasonably comparable levels of services at reasonably comparable levels of taxation.[2]

What the words 'reasonably comparable' imply with respect to provincial revenues and taxation remains an open question. Yet it is on the basis of this open question that over 5 per cent of the federal government's expenditures are made.

In recent years, the lack of a clear definition of the goals of equalization, and the open-ended nature of the formula then in place, resulted in arbitrary adjustments to the system imposed by the federal government. The objective was to limit its liabilities, which had soared as a result of sharply increased energy revenues in some provinces. The most recent equalization legislation, enacted in April 1982, has eliminated some of the arbitrary measures, but it has created further potential difficulties. For example, although all resource revenues will be included in the new formula, the province of Alberta, which has by far the greatest resource revenues, has been omitted from the base on

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[1] Anyone wishing to obtain a better understanding of how the equalization system works should consult the report of the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements, *Fiscal Federalism in Canada*, 1981.

[2] Constitution Act, 1981, part III, 36(2).

which the calculations of equalization entitlements are made. The system continues to make no reference to the costs of providing services, nor to variations among the various provinces in the services required.

In its 1981 report, the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements noted:

> Since the purpose of equalization is to enable provinces to provide their residents a reasonably comparable level of public services with a reasonably comparable level of overall taxation, it would be desirable to take into account interprovincial differences relating to costs and needs in computing equalization payments... The difficulty, however, is to measure provincial costs and needs on a comparable basis. Although several provinces have recommended that equalization payments take such factors into account, none has proposed a specific solution to the measurement problems involved, which seem formidable indeed.
>
> The Task Force is not at the moment in a position to make recommendations as to how the problems of measuring provincial costs and provincial needs might be overcome, and therefore concludes that, for the time being, equalization payments should continue to be determined exclusively on the basis of disparities in provincial fiscal capacity. We do, however, urge that work continue in the technical committees of federal and provincial officials on methods by which differential costs and needs might appropriately be reflected in an equalization formula based primarily on measures of fiscal capacity.[3]

In general, we agree with this Task Force conclusion, recognizing that it will be extremely difficult to find a reasonable system for the provision of equalization that will avoid the pitfalls of the present system. But we believe it is well worth pursuing with far more vigour than is now being displayed.

The central thrust of the Committee's report is that government expenditures intended to develop a region's economy are to be preferred in general to expenditures that only compensate for an existing disparity. But this distinction between expenditures to promote development and expenditures to compensate for disparities is rarely clear-cut. No region or sub-region is going to be able to maximize its developmental potential without an adequate supply of schools, hospitals, policing and other public sector infrastructure and services. To quote one witness, Mr. Gérard Veilleux, Assistant Deputy Minister of Finance, "Fiscal arrangements do not directly influence industrial location, but they do contribute to regional development in a fundamental way by assisting provinces to provide a higher standard of public services. [They] contribute to the provision of the basic economic infrastructure and basic social services which are essential in the long run to economic development. This assistance comes in a way which allows provincial governments wide latitude in the kind of development... they wish to foster."(1-32-11:6) The object of policy thus becomes to ensure that the system of equalization payments is as efficient an instrument as possible to promote this development and to meet our constitutional commitment.

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[3] *Fiscal Federalism in Canada, op. cit.*, p. 161.

Directed Transfers: The Shared-Cost Programs

One of the principal forms of federal-provincial co-operation has been the 'shared-cost' program, in which both levels of government participate in the program funding. Shared-cost programs came into use in Canada innocuously enough in 1900 with a program to assist the provinces to finance 4-H Club activities. By 1963, some 63 shared-cost programs had been initiated.

Today, these programs have been considerably consolidated and the nature of the terms and conditions applied to provincial activities have generally been lessened. For example, the Established Programs Financing of post-secondary education and health care is no longer a shared-cost program in the sense of reimbursing the provinces on the basis of the costs incurred. It does, however, through a per capita subsidy, pay for a substantial portion of provincial costs for programs, such as medicare, promoted by the federal government and is in this sense a 'shared-cost' program. The magnitude of these transfers remains enormous (See Table 12-3). When those transfers designed specifically to foster regional development under the General Development Agreements are included, federal commitments under shared-cost programs amounted to over $8 billion in 1980-81, over 14 per cent of total federal expenditures.

Table 12-3: Estimated Federal Transfers to the Provinces, Territories and Municipalities Fiscal Year 1980-81 ($ millions)

Program	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	N.W.T.	Yukon	Total
Statutory Subsidies	9.7	.7	2.2	1.8	4.4	5.5	2.2	2.1	3.4	2.1	—	—	34.1
Fiscal Equalization	377.6	85.5	447.6	387.6	1,653.6	—	299.3	62.5	—	—	—	—	3,313.7
1971 Undistributed Income on Hand	.3	*	.8	1.4	13.1	18.8	1.8	1.0	3.1	4.7	—	—	45.0
Reciprocal Taxation	6.4	2.9	14.8	9.4	35.3	38.5	—	—	—	—	—	—	107.3
Public Utilities Income Tax Transfer	4.5	1.0	—	—	1.3	20.0	2.0	*	34.0	1.5	.3	.4	65.0
Youth Allowances Recovery	—	—	—	—	-161.6	—	—	—	—	—	—	—	-161.6
Prior Year Adjustments**													150.5
Total Fiscal Transfer Cash Payments	398.5	90.1	465.4	400.2	1,546.1	82.8	305.3	65.6	40.5	8.3	0.3	.4	3,533.5
Hospital Insurance	72.0	15.4	106.1	88.1	544.9	996.1	128.2	120.3	220.8	290.2	5.1	2.2	2,589.4
Medicare	24.7	5.3	36.4	30.3	187.1	342.0	44.0	41.3	75.8	99.7	1.7	.8	889.1
Post-Secondary Eduction	45.2	9.7	66.6	55.3	342.1	625.3	80.5	75.7	138.6	182.2	3.1	1.4	1,625.5
Extended Health Care	15.5	3.3	22.9	19.0	169.4	230.2	27.7	26.0	55.5	69.9	1.2	.6	641.2
Prior Year Adjustments**													38.0

Established Programs Financing Cash Payments	157.4	33.7	232.0	192.7	1,243.5	2,193.6	280.4	263.1	490.7	642.0	11.1	5.0	5,783.2
Canada Assistance Plan	50.8	11.8	62.5	78.6	541.4	508.1	67.8	66.1	150.0	254.9	1.6	8.7	1,802.3
Health Resources Fund	—	1.1	8.0	—	4.2	.2	.6	.7	.3	2.2	—	—	17.3
Other Health and Welfare	.9	.5	2.1	4.6	34.6	33.2	6.4	5.7	9.5	4.3	1.2	.4	103.4
Bilingualism in Education	1.3	.8	2.9	12.6	106.5	41.0	3.9	1.7	3.5	4.2	.1	.1	178.6
Economic Development	43.7	27.9	37.6	38.4	123.5	20.1	24.7	18.5	8.0	19.7	3.8	2.0	367.9
Crop Insurance	*	.6	.1	.1	2.6	8.8	8.1	33.2	20.7	1.8	—	—	76.0
Territorial Financial Agreements	—	—	—	—	—	—	—	—	—	—	215.5	52.3	267.8
Municipal Grants	1.7	.6	8.3	5.1	34.7	66.6	8.5	3.8	9.7	14.7	1.3	1.0	156.0
Total Other Cash Payments	98.443.3	121.5	139.4	847.5	678.0	120.0	129.7	201.7	301.8	223.5	64.5	2,969.3	
TOTAL CASH TRANSFERS	654.3	167.1	818.9	732.3	3,637.1	2,954.4	705.7	458.4	732.9	952.1	234.9	69.9	12,306.0

* Amount too small to be expressed.
** Distribution not available.
Source: *Federal-Provincial Programs and Activities:A Descriptive Inventory*, Government of Canada, Federal-Provincial Relations Office, January 1981, p. iii.

From the perspective of regional development, these transfers are of considerable interest in two important, but contradictory ways. On the one hand, shared-cost programs act in a manner similar to equalization, enabling the provinces with the least developed tax bases to deliver more and better services than would otherwise be the case. By reducing the impact of regional disparities, these programs contribute to regional development. Moreover, by helping to establish national standards and ensuring the portability across Canada of certain government services, the shared-cost nature of the programs facilitates necessary economic adjustments and improves Canadians' freedom to live wherever they choose.

On the other hand, several of our witnesses argued that the transfers may distort provincial decisions, result in a less efficient allocation of provincial revenues than would be the case in their absence, and thereby skew provincial expenditure decisions. For provincial governments, shared-cost programs constitute offers they cannot refuse; for every fifty cents put up by a province, it receives a dollar's worth of program. As a result, it is argued, provincial governments are induced to make inappropriate decisions and expenditures to the detriment of their own economies and social programs.

We acknowledge that the potential to shift provincial priorities is present. But we are not convinced that the potential is often realized, or that the results are necessarily negative. Shared-cost programs have in the past been important and realistic expressions of the federal nature of government in Canada, and we conclude that the federal and provincial governments should continue to consider the use of shared-cost programs where, for reasons of maintaining or establishing national standards, such programs are merited.

We recognize that the federal government is currently seeking ways to reduce its commitments and increase its influence with respect to certain of the transfer programs. We would like to emphasize that the consequences of any reductions for the less developed regions of Canada should be given special consideration, and any changes should take account of the differing capacities and needs of the recipient provinces.

In Chapter 8 we considered the importance in joint federal-provincial undertakings of adequate recognition being given to the contributions of both levels of government. If these programs are to continue to function effectively, we think it important that shared-cost agreements include explicit provisions to ensure that the contributions of both levels of government are adequately represented to the public.

The systems of equalization payments and shared-cost programs enable all regions to provide reasonably comparable levels of public services and in this way they contribute to regional development.

CHAPTER 13

COMPETITION, TRADE, REGULATION

A plethora of government programs affects the operations of various sectors of the economy and, for better and worse, interferes with the natural operation of the Canadian marketplace. In some instances, such as in the case of competition and fair trade policies, this interference can serve to improve the efficiency of markets. In other cases, however, interference aimed at achieving specific economic, social and other goals can distort market operation. In this chapter we have limited ourselves to setting out some principles that are important if policies are to be made more efficient and less detrimental to regional economic development. We have selected as examples competition policy, trade policy, and economic regulation.

Competition Policy

Competition policy comprises that set of government regulations that strive to guarantee that the free market system functions fairly and efficiently. To some, this is taken to mean simply policies prohibiting the formation of monopolies. But in fact this policy area extends to include efforts to prevent all forms of unfair trade practices, including predatory pricing, restraint of competition and so on. Competition policy is therefore not unlike the rules of the road for the marketplace, and a sound policy is essential to the efficient functioning of Canadian markets.

Unfortunately, for a variety of reasons Canada has failed to generate an adequate competition policy. In some ways this has not proven totally debilitating. To a considerable extent, foreign competition has prevented the formation of many monopoly situations in Canada, and even without explicit rules the private sector has tended to 'play fair'.

But an effective competition policy can also encourage regional development. It is important to ensure that new and smaller competitors that may grow up in the least developed areas can compete on a fair basis with existing, and usually larger, Canadian and multi-national firms. Many of the least developed areas have relatively small populations. This means that firms starting up in these areas must immediately begin to compete with larger companies, which have developed in their own larger and often more prosper-

ous markets both in Canada and overseas. Without an effective competition policy, the smaller firms could be effectively crowded out of these larger, prosperous markets and even out of their own local markets by stronger established firms using unfair practices. This should not be allowed to occur.

In another vein, the small size of the least developed areas leaves them open to the development of internal monopolies — especially for goods and services that are not traded over long distances. During the early stages of development, these monopolies may be inevitable. But over the longer term, internal monopolies could in and of themselves distort the effective development of the areas of greatest disparity and stymie efforts to further their development.

An effective competition policy must therefore respect the development process in the least developed areas and yet assure efficient market operations. We understand that it is the government's intention to introduce in the near future legislation dealing with important structural aspects of the competition policy, including mergers, monopolies and conspiracies to restrict trade. In formulating the new competition policy, it will be important to bear in mind the needs and conditions in the least developed regions.

An effective competition policy is desirable for many reasons, one of which is that it can encourage economic development in the least developed regions.

Trade Policy

It is widely perceived that the National Policy of tariffs, by design or by accident, served to favour industrial growth in central Canada at the expense of development in the other regions. Although it seems fairly clear that, at least initially, this was the case, it is always difficult to know where truth leaves off and legend begins. Nevertheless, numerous commentators have suggested that by undoing existing barriers to trade, the economic development of Canada, and specifically of the least developed regions, could be accelerated.

Trade policy has, since Confederation at least, been a subject of great controversy in Canada, and we expect it to remain so. Keeping the debate alive, the Senate Committee on Foreign Affairs recently completed a study of the potential benefits of Canada's participation in a free-trade agreement with the United States, and we commend this report to all those interested in the subject.

Freer trade need not be restricted to trade between Canada and the United States. During the post-war period, with the help of the General Agreement on Tariffs and Trade, international trade has become much freer, and tariff-related barriers have declined in importance. This is a trend we welcome. Freer trade affords Canadians the opportunity to increase their output by competing as equals in international markets, a vital factor given Canada's small population. Moreover, freer trade enables Canadians to benefit from the lower cost and unique products of other economies. With freer trade, Canadians can derive greater benefit from comparative advantage, concentrat-

ing on doing those things they can do best. But they must be prepared to meet the challenges of international competition both abroad and within Canada.

Accordingly, the aim of government policy should be to encourage those industries in which Canada has a comparative advantage, and our regional development policies should contribute to this objective, not detract from it. As Professor Courchene pointed out, "Canada is reaching the stage where the amounts of money spent to counter... regional [disparities] and the policies deployed to prop up sagging industries are... endangering our international competitiveness."(4-30-5:8; 5A:20) It follows that regional development should be undertaken within a national context that recognizes the need for competitive cost and price structures in the international marketplace.

The movement toward freer trade is not, however, guaranteed to continue. In fact, the relative economic turmoil and strife of recent years has renewed calls for various forms of protectionism both in Canada and abroad. Quotas, procurement policies and other measures designed to restrict the free flow of commerce and capital have been used in recent years in Canada and by many of our major trading partners. Such measures should be resisted, because freer trade encourages general economic development; and anything that improves Canada's national economy will ultimately facilitate development in the special areas most in need.

While supporting the movement toward freer trade, we have also had to recognize that in very special circumstances it may be prudent to restrict access to Canadian markets for very short periods, either to stabilize Canadian markets and insulate them from short run shifts in international markets — a major concern in respect of basic commodities and agricultural products — or to permit Canadian industry a reasonable period of time to adjust to permanent shifts in international trading patterns brought about by the development of new processes or greatly increased capacity overseas. However, it is all too easy for such actions to become permanent features of our industrial landscape, and the result can be higher than necessary costs for Canadian consumers and industrial stagnation. These negative effects can far outweigh any possible benefits.

Such unwarranted costs can be avoided only by restricting the extent to which protectionist measures are used and by strictly limiting the periods over which they are employed. Accordingly, we would be prepared to accept restrictive trade practices, such as voluntary export restraints, quotas, special taxes and the like, only for very limited periods of time and in exceptional circumstances. They should be used in connection with other programs designed to bring about the industrial restructuring needed to eliminate the original cause of the trade restriction. To ensure that they are not extended, a termination or sunset date should be specified when the arrangement is put in place.

Regional development should be undertaken within a national context that recognizes the need for competitive cost and price structures in the international marketplace. Freer trade, by strengthening the national economy, will ultimately facilitate development in the less developed areas. When restrictive trade practices are found to be necessary, a termination date should be specified to ensure that the measure is not extended.

Economic Regulation

In addition to competition rules, a large number of other regulations now influence the operation of economic markets and decisions. Table 13-1 illustrates the extent to which such economic regulations have proliferated.

Table 13-1
The Scope of Economic Regulation
Estimated Number of Regulatory Statutes (1978)

	Federal	All Provinces
Financial markets and institutions	14	82
Agriculture and fisheries (including product standards)	27	152
Health and safety (excluding occupational health and safety)	16	155
General regulation of business activities	9	131
Occupational and business licensing	*	389
Transportation and communications	31	97

* These are largely areas of provincial jurisdiction. However, under a small number of statutes, the federal government licenses certain occupations, e.g., commercial pilots, air traffic control operators, and ships' officers.
Source: *Synopsis and Recommendations from Responsible Regulation, An Interim Report by the Economic Council of Canada*, The Economic Council of Canada, November 1979, p. 6.

Regulation is a permanent feature of our economic environment. In some instances, such as marketing board rules, these regulations are designed to have specific economic consequences. (Whether they have these desired effects or not is an important question.) In other cases, such as environmental and safety regulations, the rules have been designed to accomplish other ends but have significant economic side-effects. However important their objectives, we cannot overlook the fact that regulations can severely affect the course and pace of economic development. They can contribute to inflationary pressures, result in misallocations of resources, strangle entrepreneurial initiative and thwart desirable economic development.

The regulatory topic is immense; it has been widely studied in the past and continues to be a subject of interest and debate. We have limited our attention to those aspects of regulation that directly influence regional economic development. Two facets of the issue were of greatest interest to us. Briefly, these may be summarized in terms of applicability and uniformity.

The Canadian economy is a highly diverse, heterogeneous piece of machinery. Even individual sectors of the economy vary considerably across Canada in terms of structure and operating conditions. Therefore, in spite of the difficulty, national programs should respect this diversity and be capable of modification to suit the varying conditions existing across Canada. If they are not, the consequences for some areas can be highly negative.

At the same time, it is important for the maintenance of an open, national economy that similar standards exist across the country in order to facilitate the free flow of goods, capital and labour. Varying regulations and requirements have been used by many countries to block free trade, and the effects can be the same within Canada. Thus, the question of uniformity conflicts in some ways with the need for flexibility in regulations to achieve maximum applicability in our diverse economy. Moreover, both can be important for the least developed regions.

Meeting the diverse needs of the various regions of Canada while maintaining the benefits of a Canadian common market are necessary objectives of all government policy in Canada, and not just regulatory policy. In terms of regulatory intervention, the problem is particularly acute due to the major roles played by federal, provincial and municipal governments. Local and provincial governments may implement regulations that serve to create artificial barriers to the marketing of goods and services in Canada. Local and provincial certification of professionals and trades groups creates barriers to the movement of individual Canadians, reducing the efficiency of the economy and limiting individual freedoms.

To borrow the analogy used earlier, just as competition policy can improve the flow of goods and services through the Canadian economy by providing reasonable rules of the road to speed traffic, economic regulations can slow the flow of traffic, cause accidents and waste energy. The economic traffic in Canada must be made to flow as freely, safely and efficiently as possible if Canadians are to compete in the future.

This Committee recognizes that regulatory intervention in certain areas is inevitable and desirable in Canada. But regulatory intervention need not continue to balkanize the Canadian economy, create excess costs for Canadian producers, and distort the functioning of Canadian markets. We are convinced that there is tremendous scope for Canadian governments at both levels to reduce the differences in their regulatory regimes and to create more efficient regulatory mechanisms. We believe that regulatory interventions should be designed to have minimal negative effects on the functioning of Canadian markets and should not be used to inhibit the free movement of goods, services, capital and individuals across Canada. To this end, the federal and provincial governments should seek to standardize regulations in all sectors to as great an extent as possible.

Regulatory interventions should be designed to have minimal negative effects on the functioning of Canadian markets and should not be used to inhibit the free movement of goods, services, capital and individuals across Canada.

APPENDICES

- **Appendix A: Income and Employment— Symptoms of the Malaise**
- **Appendix B: Regional Diversity**
- **Appendix C: Witnesses Who Appeared before the Committee**

APPENDIX A

INCOME AND EMPLOYMENT — SYMPTOMS OF THE MALAISE

Regional Incomes

The problem of Canadian regional disparities is both remarkably persistent and consistent. Professor Alan Green reviewed the history of regional development in Canada, and commented:

> A quick review reveals two outstanding aspects of the process of economic growth in Canada between 1890 and 1956. The first is the persistence over the 66-year period of regional inequalities in average output. By 1956, the weighted dispersion of output per capita was about the same as it was in 1890. Also, with a few exceptions, the provinces with the highest average output in 1890 still had the highest in 1956 and those with the lowest continued, throughout, to hold that unenviable honour. The second is the variation in regional inequality over the period; although provincial positions on the income scale were relatively fixed, differentials between the top provinces and the bottom first widened and then narrowed. In particular a divergence in average output was observed between 1890 and 1910, followed by a period of relatively high level inequality and then a tendency towards convergence after 1929.[1]

The post-1929 convergence to which Professor Green refers has in fact continued through the post-war years and the 1970s. Table A-1 illustrates the movement in personal income over this period for various broadly defined regions, and Table A-2 illustrates the more significant convergence in wages and salaries in the recent past.

In looking at such tables, the reader should bear two points in mind. First, and perhaps most important, these definitions of regions are very broad and conceal more than they reveal. Every region of Canada, regardless of its

[1] Alan G. Green, *Regional Aspects of Canada's Economic Growth* (Toronto: University of Toronto Press, 1971), p. 61.

Table A-1
The Income Story

		% of national average			Average Annual Change	
		1959	1969	1979	1959-69	1969-79
Atlantic	— Income per Capita	67.0	69.8	73.3	6.9	12.4
	— Disposable Income per Capita	68.1	72.1	75.4	5.9	11.6
Quebec	— Income per Capita	86.7	90.3	93.7	6.8	12.2
	— Disposable Income per Capita	91.6	92.1	90.9	5.9	11.6
Ontario	— Income per Capita	118.7	115.6	107.9	6.1	11.0
	— Disposable Income per Capita	116.8	112.8	108.1	5.1	11.3
Prairies	— Income per Capita	95.4	95.6	101.0	6.4	12.4
	— Disposable Income per Capita	96.4	98.3	103.9	5.6	12.4
British	— Income per Capita	116.3	106.6	110.3	5.4	12.2
Columbia	— Disposable Income per Capita	119.7	104.8	110.4	4.3	12.3
CANADA		100	100	100	6.4	11.8

Table A-2
Average Weekly Wages and Salaries
(Industrial Composite)*

	1970		1980	
	Level	% of National	% of Level	National
Atlantic	107.65	84.6	275.45	86.8
Quebec	123.11	96.7	315.35	99.4
Ontario	131.48	103.3	311.45	98.1
Prairies	121.80	95.7	320.48	101.0
British Columbia	139.40	109.5	363.51	114.5
CANADA	127.31	100.0	317.38	100.0

* Does not include Forestry, Fishing and Trapping.

average level of development, contains areas of great prosperity and development. But there are also areas of lesser development and more profound disparity. This is well illustrated by comparing the data in Table A-3 with the results of a recent Conference Board study of wages in selected occupations in major Canadian cities. Briefly, this study demonstrated a dramatic narrowing of the wage differences between Toronto and other metropolitan areas in Canada (with the exception of Vancouver which has much higher wages than any other city). For example, whereas the mean wage for these selected occupations in Saint John, New Brunswick was 16 per cent below that in Toronto in 1970, in 1979 that average wage actually exceeded the Toronto

average by 2 per cent. Despite this narrowing noted in the major cities, as Table A-4 shows, the gap in average industrial wages and salaries between the Ontario and the Atlantic regions remains very large.

The second point is also nicely illustrated by the Conference Board study. That is, significant differences in the cost of living in various cities makes it very difficult to compare incomes directly. Table A-4 shows, for example, that while wages in Halifax tended to lag behind those in Toronto, it is sufficiently less costly to live in Halifax that the lower paid Haligonian may be better off in real terms than his Toronto counterpart. Such differences in living costs reflect another aspect of the diversity of the Canadian economy.

Gaps in wages are just one part of the larger disparity story, however. The income data shown in Figure A-5 illustrate the deeper discrepancies that exist in average incomes across Canada. These income gaps are much wider than the actual wage gaps, and the reason is straightforward. Income is the product of the wage paid and the amount of employment, and employment disparities across Canada are much more severe, and less amenable to resolution, than any other disparity.

Table A-3 — Estimated Relative Earnings, as a Percentage of Toronto, 1970 and 1979

		St. John's	Halifax	Saint John	Montreal	Winnipeg	Regina	Calgary	Vancouver
Carpenter,	1970	78	89	82	94	96	89	108	115
Maintenance	1979	86	97	93	96	97	110	123	132
Electrical	1970	86	87	90	93	95	99	107	112
Repairer	1979	94	97	106	95	96	110	107	124
Labourer, Non-	1970	70	87	89	94	99	92	103	114
Production	1979	79	93	100	97	95	100	103	127
Industrial	1970	82	76	87	98	91	97	95	127
Truck Operator	1979	87	100	105	101	92	101	104	132
Accounting	1970	83	86	77	95	96	91	95	100
Clerk, Jr.	1979	94	94	102	100	105	113	107	123
Clerk, General	1970	79	83	77	88	83	83	89	97
Office, Jr.	1979	96	94	94	103	100	104	108	119
Draftsman/	1970	82	93	96	91	84	91	100	103
woman, Jr.	1979	89	100	111	104	98	108	113	116
Secretary, Jr.	1970	81	92	87	95	93	89	97	97
	1979	96	94	103	102	95	108	108	117
Typist, Jr.	1970	79	87	76	91	87	85	94	97
	1979	97	88	99	98	100	106	106	115
Data Entry	1970	86	88	79	95	88	77	93	102
Operator, Jr.	1979	102	91	101	100	100	99	108	123
Maintenance	1970	80	87	84	92	92	99	99	106
Machinist	1979	100	102	101	100	100	114	104	127
Stationary	1970	81	86	87	90	89	87	98	121
Engineer, 4 Cl.	1979	97	94	101	93	102	100	105	136
Truck	1970	66	76	76	93	83	81	96	117
Driver	1979	82	87	93	98	98	97	106	122
Welder,	1970	80	94	95	96	102	104	111	124
Maintenance	1979	86	103	119	101	99	112	114	130
Arithmetic	1970	80	86	84	93	91	90	99	109
Mean	1979	92	95	102	99	98	106	108	124

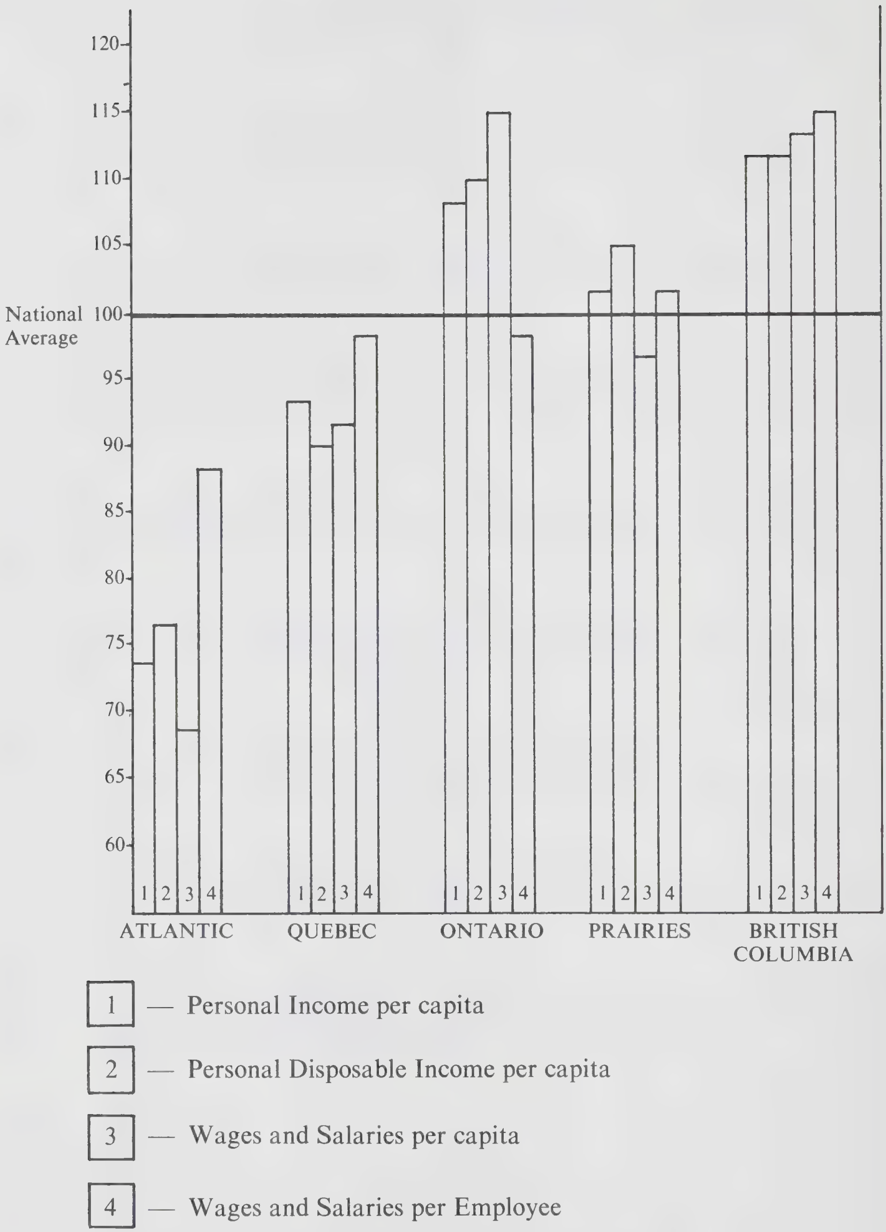
Source: J. Frank, *Provincial Differences: A Challenge to Compensation and Relocation Policies*, The Conference Board of Canada, September 1981, pp.6-7.

Table A-4 — Income and Living Cost Differences, Major Cities in Canada, 1979

	Toronto	St. John's	Halifax	Saint John	Montreal	Winnipeg	Regina	Calgary	Vancouver
Apartment Dweller									
Cost of Living	$13,534	$13,129	$13,185	$12,874	$12,229	$12,183	$13,144	$13,729	$13,891
Income Tax	3,308	2,933	3,019	3,487	3,967	3,257	3,766	3,541	4,866
Total Cost of Living	16,842	16,062	16,204	16,361	16,196	15,440	16,910	17,270	18,757
Gross Income	20,000	18,400	19,000	20,400	19,800	19,600	21,200	21,600	24,800
Discretionary Income	$ 3,158	$ 2,338	$ 2,796	$ 4,039	$ 3,604	$ 4,160	$ 4,290	$ 4,330	$ 6,043
Relative Gross Income to Total Cost of Living	1.00	.96	.99	1.05	1.03	1.07	1.06	1.05	1.11
	Toronto	St. John's	Halifax	Saint John	Montreal	Winnipeg	Regina	Calgary	Vancouver
Home Owner									
Cost of Living	$22,366	$21,682	$21,003	$20,099	$20,339	$21,429	$21,408	$21,767	$23,235
Income Tax	6,357	5,815	5,962	6,803	7,797	6,390	7,313	6,950	9,533
Total Cost of Living	28,723	27,497	26,965	26,902	28,136	27,819	28,721	28,617	32,768
Gross Income	30,000	27,600	28,500	30,600	29,700	29,400	31,800	32,400	37,200
Discretionary Income	$ 1,277	$ 103	$ 1,535	$ 3,698	$ 1,564	$ 1,581	$ 3,079	$ 3,783	$ 4,432
Relative Gross Income to Total Cost of Living	1.00	.96	1.01	1.09	1.01	1.01	1.06	1.08	1.09

Source: J. Frank, *Provincial Differences: A Challenge to Compensation and Relocation Policies*, The Conference Board of Canada, September 1981, p.46.

Figure A-5


120
115
110
105
National Average 100
95
90
85
80
75
70
65
60
1 2 3 4
1 2 3 4
1 2 3 4
1 2 3 4
1 2 3 4
ATLANTIC
QUEBEC
ONTARIO
PRAIRIES
BRITISH COLUMBIA
1 — Personal Income per capita
2 — Personal Disposable Income per capita
3 — Wages and Salaries per capita
4 — Wages and Salaries per Employee

Unemployment: The Cruelest Symptom

In Canada, employment is the primary source of personal income and determines, to a considerable extent, economic well-being. But employment is important for reasons extending well beyond straightforward economics. Throughout history, people have identified themselves with their employment; family names often reflected the role played by the individual in the economy. In addition, occupations constitute vital components of our individual sense of identity, self-esteem and pride. To be without employment can lead to a loss of social identity and self-worth.

Unemployment is thus both a cruel social symptom of regional disparities and their most profound economic cause. In Table A-6 we set out, in three separate steps, the relative disparities between provinces in terms of employment. Once again, these tables both reveal and conceal the relatively high levels of employment within certain areas of each province and the unacceptably high levels of unemployment in other areas.

Table A-6 – Labour Force Disparities: 1980

	STAGE I		STAGE II				STAGE III			
	Population of Labour Force Age[1]		Participation		Labour Force		Employment			
	% of Total	% National Average	Rate	% National Average	% of Population	% National Average	% of Labour Force	% National Average	Employed as % of Pop.	% of National Average
Canada	75.3%	100.0	64.0	100.0	48.2	100.0	92.5	100.0	44.6	100.0
Newfoundland	69.3	92.1	53.1	83.0	36.8	76.4	86.1	93.1	31.7	71.2
Prince Edward Island	72.6	96.4	59.5	93.0	43.2	89.6	89.2	96.4	38.7	86.9
Nova Scotia	73.7	97.9	57.9	90.5	42.7	88.6	91.2	98.6	38.5	86.4
New Brunswick	73.0	96.9	56.0	87.5	40.9	84.9	88.9	96.1	36.4	81.6
Quebec	76.9	102.2	61.1	95.5	47.0	97.5	90.1	97.4	42.3	95.0
Ontario	76.3	101.3	66.8	104.4	51.0	105.8	90.7	98.1	47.4	106.5
Manitoba	73.2	97.2	64.6	100.9	47.3	98.1	94.5	102.2	44.6	100.0
Saskatchewan	72.7	96.5	62.9	98.3	45.7	94.8	95.6	103.4	43.7	98.0
Alberta	73.3	97.4	70.3	109.8	51.5	106.9	96.3	104.1	50.0	111.8
British Columbia	76.1	101.1	63.7	99.5	48.5	100.6	93.2	100.8	45.2	101.4

[1] Over 15 years old.

The three steps of the employment picture represent most vividly the regional development disparities across Canada. Although all the provinces are displayed, we can best illustrate the scope of the problem by contrasting Newfoundland's situation with the national average through each of these stages. None of these stages is independent of course. High levels of prolonged unemployment, for example, result in lower participation rates and also contribute to a tendency to move out in search of employment elsewhere, thus reducing the proportion of the population of labour force age.

Stage I illustrates the most basic information, the proportion of the population that is eligible for permanent, full time employment — according to Statistics Canada's definition, those over fifteen years of age. Even at this basic level there are significant regional differences, with Newfoundland's population relatively less eligible for employment than that any other province. In fact, compared to the national average, Newfoundland has almost 8 per cent fewer individuals of working force age, a significant deficit in terms of generating income in the province.

The picture worsens in Stage II, in which the labour force calculations are displayed. Relatively fewer Newfoundlanders declared themselves to be members of the labour force — that is to be either employed or actively seeking employment. The Newfoundland participation rate is a full 17 per cent below the national rate and this, combined with the smaller labour force base shown in Stage I, results in a much smaller labour force-to-population ratio in the province. Only 36.8 per cent of Newfoundlanders were members of the labour force compared to 51.5 per cent of British Columbians and 51 per cent of Ontario residents. Nationally, 48.3 per cent of all Canadians are members of the labour force. To put this figure in perspective, even if Newfoundlanders who are now members of the labour force suffered from the same unemployment rate as other Canadians and earned the same wages, wage income per capita in Newfoundland would still be over 23 per cent below the national level.[2]

Unfortunately, the unemployment rate in Newfoundland is significantly above the national average. Whereas the 1980 national unemployment rate stood at 7.5 per cent, Newfoundlanders were afflicted by unemployment levels of 13.9 per cent. This poor employment result, when coupled with the lower labour force levels, results in Newfoundland having an employment-to-population ratio of just 31.7 per cent, well below the next lowest levels of 38.5 per cent and 38.7 per cent in Nova Scotia and Prince Edward Island respectively.

We have considered Newfoundland only because it is the most extreme example. But within every province are pockets of even more serious underemployment, resulting in economic hardship and waste. The key to remedying this problem and eliminating the hardship lies in economic development: the matching of available workers with productive capital to produce goods and services and to generate income. With more jobs will come greater involvement in the labour force and improved prosperity. Perhaps even more important, employment will bring a greater sense of individual and social pride and satisfaction.

[2] Although under these circumstances it is expected that the participation rate would rise significantly in Newfoundland, thus narrowing this gap.

APPENDIX B

REGIONAL DIVERSITY

This appendix sets out some data illustrating the major differences — economic, social, demographic — among the regions of Canada. Regional disparity can sometimes be measured, but it is always felt by those who are victims of economic, social or perceived political inequality. Traditionally, economic indicators such as per capita income, participation rate and unemployment rate have been used to measure disparities; thus most emphasis has been placed on the economic situation in a region.

Social indicators such as family structure, suicide rates and health standards have not often been used in conjunction with economic indicators to measure the full range of differences between regions. According to O.J. Firestone, this may be a mistake since "in economic analysis, and particularly in regional analysis, explanations are offered in economic terms when in fact, many of the elements are non-economic—cultural, social, political and psychological".[1]

Several tables deal with the conventional economic indicators. In addition, we have provided tables showing certain social indicators and comparisons with other industrialized countries in order to give a more balanced view of the disparities between regions in Canada and between Canada and other western countries.

Demographic Information

Tables B-1, 2 and 3 show the growth in Canadian and provincial populations between 1891 and 1980. The largest increase in population in the west and British Columbia was during the settlement phase of 1891 to 1921. In general, the central and Atlantic provinces grew at a faster pace between 1931 and 1961. As a percentage of the total Canadian population, the populations of the Atlantic and central provinces have shrunk while that of the western provinces (in particular the prairie provinces) has grown; however, in real numbers, Ontario and Quebec remain the most populous provinces and will continue to have more than 50 per cent of Canada's population for the foreseeable future.

Table B-4 indicates the source of population increases in the country as a whole and in each province. In general, the rate of natural increase in

[1] O.J. Firestone, *Regional Economic and Social Disparity*, p. 215.

Table B-1 – Population Statistics

Year	Canada	New-foundland	P.E.I.	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
1891	4,833,200	—	109,100	450,400	321,300	1,488,500	2,114,300	152,500	—	—	98,200
1901	5,371,300	—	103,300	459,600	331,100	1,698,900	2,182,900	255,200	91,300	73,000	178,700
1911	7,206,600	—	93,700	492,300	351,900	2,005,800	2,527,300	462,400	492,400	394,300	392,500
1921	8,787,900	—	88,600	523,800	387,900	2,360,500	2,933,700	610,000	757,500	588,500	524,600
1931	10,376,700	—	88,000	512,800	408,200	2,874,700	3,431,700	700,100	921,800	731,600	694,300
1941	11,506,700	—	95,000	578,000	457,400	3,331,900	3,787,700	729,700	896,000	796,200	817,800
1951	14,009,400	361,400	98,400	642,600	515,700	4,055,700	4,597,600	776,500	831,700	939,500	1,165,200
1961	18,238,300	457,900	104,000	737,000	597,900	5,259,200	6,236,100	921,700	925,200	1,332,000	1,629,100
1971	21,568,300	522,100	111,600	789,000	634,600	6,027,800	7,703,100	988,200	926,200	1,627,900	2,184,600
1980	23,914,400	579,900	124,300	852,500	707,100	6,303,400	8,570,400	1,028,300	969,200	2,078,500	2,636,500

Table B-2

Percentage increase in population

Year	Canada	New-foundland	P.E.I.	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
1891 to 1921	81.8	—	−18.8	16.3	20.7	58.6	38.8	300.1	729.7 (1901 to 1921)	706.2 (1901 to 1921)	434.2
1931 to 1961	75.8	26.7 (1951 to 1961)	18.2	43.7	46.5	82.9	81.7	31.7	0.37	82.1	134.6
1971 to 1980	10.9	11.1	11.4	8.5	11.4	4.6	11.3	4.1	4.6	27.7	20.1

Source: Statistics Canada 91-201 and M.C. Urquhart and K.A.H. Buckley, *Historical Statistics of Canada (Toronto: Macmillan, 1965).*

Table B-3 – Provincial Populations as % of Canadian Total

Year	New-foundland	P.E.I.	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskat-chewan	Alberta	British Columbia
1891	—	2.25	9.31	6.64	30.79	43.74	3.15	—	—	2.03
1901	—	1.92	8.55	6.16	31.62	40.64	4.75	1.69	1.35	3.32
1911	—	1.30	6.83	4.88	27.83	35.06	6.41	6.83	5.47	5.44
1921	—	1.00	5.96	4.41	26.86	33.38	6.94	8.61	6.69	5.96
1931	—	0.84	4.94	3.93	27.70	33.07	6.74	8.88	7.05	6.69
1941	—	0.82	5.02	3.97	28.95	32.91	6.34	7.78	6.91	7.10
1951	2.57	0.70	4.58	3.68	28.94	32.81	5.54	5.93	6.70	8.31
1961	2.51	0.57	4.04	3.27	28.83	34.19	5.05	5.07	7.30	8.93
1971	2.42	0.51	3.65	2.94	27.94	35.71	4.58	4.29	7.54	10.12
1980	2.42	0.51	3.56	2.95	26.35	35.83	4.29	4.05	8.69	11.02

Table B-4 – Components of Population Growth

Province/ Territory	Natural Increase % of Population	Net Interprovincial Migration % of Population	Net Migration % of Population	Total Growth
Canada				
1951	1.89	—	1.14	426,102
1961	1.80	—	-0.02	325,107
1971	0.90	—	0.24	246,025
1980 P	0.83	—	0.21	252,897
Newfoundland				
1951	2.47	0.77	0.61	11,191
1961	2.75	-0.11	-0.44	10,608
1971	1.82	0.17	0.19	10,530
1980 P	1.38	-0.23	-0.31	6,196
P.E.I.				
1951	1.79	3.04	2.89	-4,698
1961	1.66	0.84	0.50	2,267
1971	0.94	0.25	0.35	1,453
1980 P	0.77	-0.75	-0.79	-2,200
Nova Scotia				
1951	1.80	-0.31	-0.20	10,300
1961	1.83	-0.30	-0.58	9,157
1971	0.93	-0.04	0.05	7,565
1980 P	0.68	-0.14	-0.16	4,273
New Brunswick				
1951	2.25	-0.31	-0.35	9,827
1961	1.96	-0.52	-0.78	7,061
1971	1.10	0.09	0.16	8,067
1980 P	0.78	-0.34	-0.37	2,960
Quebec				
1951	2.18	-0.22	0.65	115,322
1961	1.88	0.03	-0.04	96,574
1971	0.74	-0.33	-0.29	27,272
1980 P	0.86	-0.37	-0.41	28,019
Ontario				
1951	1.63	0.07	2.17	175,100
1961	1.66	0.06	0.21	117,329
1971	0.90	0.18	0.60	116,240
1980 P	0.72	-0.38	-0.14	50,530

P=Preliminary

population (i.e., births minus deaths) has dropped significantly from the 1950s to the 1980s. The Canadian average is now less than 1 per cent — a reflection of changing values and family patterns everywhere in the western world. There has been a trend to migration from the Atlantic provinces and Quebec over the past thirty years; British Columbia on the other hand, has been a strong net recipient of interprovincial migration. Immigration has accounted for a decreasing percentage of the population growth; and whereas much of the immigrant population went to Ontario in the 1950s and 1960s, it is now heading for the west — in particular, Alberta and British Columbia.

Table B-4 (cont'd)

Province/ Territory	Natural Increase % of Population	Net Interprovincial Migration % of Population	Net Migration % of Population	Total Growth
Manitoba				
1951	1.78	0.33	1.25	426,102
1961	1.70	-0.03	0.18	325,107
1971	0.98	-0.89	-0.56	246,025
1980 P	0.75	-1.09	-0.61	252,897
Saskatchewan				
1951	1.86	-0.80	-0.66	11,191
1961	1.78	-1.07	-1.34	10,608
1971	0.88	-2.07	-2.09	10,530
1980 P	0.95	-0.13	0.03	6,196
Alberta				
1951	2.19	-0.02	0.98	-4,698
1961	2.22	0.54	0.49	2,267
1971	1.15	0.21	0.42	1,453
1980 P	1.24	1.83	2.54	-2,200
British Columbia				
1951	1.46	0.66	1.59	10,300
1961	1.44	0.13	0.17	9,157
1971	0.76	1.47	1.64	7,565
1980 P	0.73	1.43	1.93	4,273
Yukon				
1951	2.87	—	-0.92	9,827
1961	3.15	0.68	0.32	7,061
1971	1.99	3.24	3.51	8,067
1980 P	1.64	0.67	0.67	2,960
N.W.T.				
1951	2.36	—	0.48	115,322
1961	3.91	0.86	0.75	96,574
1971	3.09	3.62	3.95	27,272
1980 P	2.02	-1.80	-1.72	28,019

P = Preliminary

Over the five-year period depicted in Table B-5, the number of dependent children decreased nationally by 484,720 while the number of dependent adults (over age 65) increased by 257,930. A declining birthrate in Canada accounts for the drop in the number of dependent children up to 14 years of age, however, the aging population has increased the number of persons over the age of 65 in every province — almost doubling the number of such persons from 1971 to 1976 across the country.

The overall dependency ratio has declined nationally by 0.122 because the dependent population has been offset by an increase of 2,510,333 persons of working age. However, it should be noted that New Brunswick and Nova Scotia have shown substantial increases in their dependency ratios (0.258 and 0.083 respectively) mainly due to a drop in the number of adults of working age in New Brunswick and a significant jump in the number of dependent children in Nova Scotia (+ 59,659).

Table B-5 – Dependency Ratios 1971 and 1976

PROVINCE	1 Age 0-14	2 Age 65+	3 Age 15-64	Ratio 1+2÷3
Newfoundland				
1971	194,580	32,075	270,110	0.839
1976	187,765	36,535	333,430	0.672
P.E.I.				
1971	35,410	12,345	58,355	0.818
1976	33,225	13,235	71,755	0.647
New Brunswick				
1971	203,105	54,710	753,500	0.342
1976	193,100	61,070	423,075	0.600
Nova Scotia				
1971	164,071	72,470	475,740	0.497
1976	223,730	80,730	524,100	0.580
Quebec				
1971	1,785,535	413,015	3,829,220	0.574
1976	1,550,340	481,355	4,202,755	0.483
Ontario				
1971	2,208,485	644,410	4,850,195	0.588
1976	2,073,785	738,925	5,451,760	0.515
Manitoba				
1971	286,795	95,555	605,895	0.631
1976	265,115	106,565	649,845	0.571
Saskatchewan				
1971	560,860	94,805	551,005	1.189
1976	248,015	102,175	571,140	0.613
Alberta				
1971	1,029,020	118,745	994,620	1.153
1976	503,130	137,935	1,196,995	0.535
British Columbia				
1971	785,415	205,010	1,369,640	0.723
1976	595,120	242,050	1,629,440	0.513
CANADA				
1971	6,380,895	1,744,410	12,583,752	0.645
1976	5,896,175	2,002,340	15,094,085	0.523

Source: 1971 and 1976 Census.

Finally, Table B-6 shows that the trend in the five-year period between 1971 and 1976 has been toward rural residency. The division of population between urban and rural living has changed slightly — -0.6 in cities and towns and + 0.5 in rural regions. The slight shift to rural areas is most apparent in

Table B-6 – Population Statistics: Urban/Rural Division 1976 and 1976

	Total Population	Urban Pop. as % of Total	Rural Pop. as % of Total
Newfoundland	522,100 557,725	57.2 58.8	42.8 41.1
P.E.I.	111,645 118,230	38.3 37.1	61.7 62.8
Nova Scotia	788,960 828,570	56.7 55.8	43.3 44.1
New Brunswick	634,560 677,250	56.9 52.3	43.1 47.6
Quebec	6,027,765 6,234,445	80.6 79.1	19.4 20.8
Ontario	7,703,105 8,264,465	82.4 81.1	17.6 18.8
Manitoba	988,245 1,021,510	69.5 70.0	30.5 30.0
Saskatchewan	926,245 921,325	52.9 55.4	47.0 44.5
Alberta	1,627,875 1,838,035	73.5 75.0	26.5 24.9
B.C.	2,184,620 2,466,605	75.7 76.9	24.3 23.0
Yukon	18,390 21,835	61.0 60.9	38.9 39.0
N.W.T.	34,810 42,610	48.3 49.6	51.6 50.3
CANADA	21,568,310 22,992,665	76.1 75.5	23.9 24.4

Source: Statistics Canada 1976 and 1976 Census.

New Brunswick (+ 4.5 per cent). Perhaps surprisingly, Ontario and Quebec have followed this trend also (+ 1.2 per cent and + 1.4 per cent respectively) while the three prairie provinces have shown a tendency to urbanization. One explanation for this trend may be the development of bedroom communities outside of municipalities but within commuting distance for workers. In other words, the development may be more definitional than real.

International Comparisons

When Canada is compared with other western industrialized countries, it is apparent that we are enjoying social and economic well-being. Table B-7

Table B-7 – International Comparisons

Country	Population (millions)	Population density	Gross domestic product	Per capita income	Life expectancy at birth	Infant mortality per 1000 births (1977)	Physicians per 100,000 (1977)	Literacy rate (1977)	Teachers per 1,000 (1977)
Canada	23.688 (1979)	6.10 per sq mi	$288.56 billion (1979)	$7,572 (1978)	69.34 male 76.36 female (1972)	12.4	178	98%	40
Belgium	9.849	835.39 per sq mi	$96.91 billion (1978)	$9,025 (1978)	67.79 male 74.21 female (1972)	11.9	211	99%	40
Denmark	5.118	299.54 per sq mi	$55.89 billion (1978)	$9,869 (1978)	71.15 male 76.8 female	8.9	204	99%	51
France	53.478	250.17 per sq mi	$471.59 billion	$7,908 (1978)	69.2 male 77.2 female (1976)	11.4	164	99%	41
West Germany	61.302	639.88 per sq mi	$758.96 billion (1979)	$9,278 (1978)	68.62 male 75.21 female	15.5	204	99%	35

Table B-7 – International Comparisons (cont'd)

Country	Population (millions)	Population density	Gross domestic product	Per capita income	Life expectancy at birth	Infant mortality per 1000 births (1977)	Physicians per 100,000 (1977)	Literacy rate (1977)	Teachers per 1,000 (1977)
Ireland	3.365	121.8 per sq mi	4 billion (1978)	$2,711 (1977)	68.77 male 73.52 female (1972)	15.7	116	99%	30
Italy	56.877	487.52 per sq mi	$260.11 billion (1978)	$3,076 (1977)	68.97 male 74.88 female (1972)	17.6	208	94%	42
Japan	115.880	800.24 per sq mi	$973.90 billion (1978)	$7,153 (1978)	72.15 male 73.8 female (1976)	8.9	119	99%	25
United Kingdom	55.901	592.48 per sq mi	$309.65 (1978)	$4,955 (1978)	67.8 male 73.8 female (1970)	14.0	153	99%	45
United States	222.020	119 per sq mi	$2,343.56 (1979)	$8,612 (1978)	68.7 male 76.5 female (1975)	14.0	176	99%	43

Source: *The World Almanac and Book of Facts, 1981.*

compares several social and economic indicators in 10 member countries of the Organization for Economic Co-operation and Development. Because of Canada's relatively small population and huge size, we have the lowest population density by far of these 10 countries; even the U.S.A., the most similar basis for comparison, has 113 more people per square mile.

Although Canada's population ranks seventh among the 10 countries being compared, our gross domestic product in 1978 was sixth, ahead of Italy, and the per capita income of Canadians ranked sixth as well.

Life expectancy is higher than average in Canada and our infant mortality rate is considerably lower than that of West Germany, Ireland, Italy, the United Kingdom and the U.S.A. As well, we enjoy higher than average health and education services.

A more specific comparison of Canada with our closest neighbour (Table B-8) indicates that Canada fares well in the North American context also. Although we have only one-tenth the GNP of the U.S.A. and one-ninth the population, the average Canadian enjoys a comparable standard of living. The per capita GNP in Canada is slightly less ($379) than that in the U.S.A.; however, the hours of work in Canada and real hourly compensation have improved more, vis-à-vis our situation in 1967, than in the United States.

Unemployment, however, is higher. The spread of unemployment rates is greater in Canada (a difference of 11.5 percentage points between Alberta and Newfoundland but only 7.5 between Alaska and New Hampshire). However, the spread in per capita income is far greater in the U.S.A. between regions (a difference of $5085 in the U.S.A. compared to $3457 in Canada).

Table B-8 – Canada/USA Comparisons

Point of Comparison	Canada	USA
GNP (1978)		
Total in current dollars	217,700,000	2,117,700,000
Total in constant (1977) dollars	202,600,000	1,971,500,000
Consumer Price Index for Selected Items (1979)*		
Total	221.0	217.4
Food	261.8	234.5
Clothing	174.9	166.6
Housing	224.6	227.6
Transportation	206.7	212.0
Selected Indexes of Manufacturing Activity (1979)*		
Output per hour	156.3	129.2
Compensation per hour (national currency)	312.8	250.8
Real hourly compensation	141.5	115.3
Unit labour costs	200.2	194.1
Employment	108.5	108.1
Hours	105.5	107.0

*1967=100

Source: *Statistical Abstract of the United States: 1980 National Data Book and Guide to Sources,* U.S. Dept. of Commerce, Bureau of Census.

Table B-8 – (cont'd)

Point of Comparison 1979	compared to national average			
	CANADA		USA	
Income per capita (current dollars)	average	$8,623	average	$9,002
	highest	+$1,198	highest	+$2,250
	lowest	–$2,253	lowest	–$2,835
Unemployment rate	average	7.5	average	5.8
	highest	+7.9	highest	+4.3
	lowest	–3.6	lowest	–3.6
Participation rate	average	63.6	average	63.3
	highest	+5.8	highest	+11.8
	lowest	–10.9	lowest	–5.1
	female	50.4	female	59.1
	male	85.4	male	85.4
	female as % of labour force	36.9	female as % of labor force	41.6

Source: *Statistical Abstract of the United States: 1980 National Data Book and Guide to Sources,* U.S. Dept. of Commerce, Bureau of Census.

Tables B-9(a) and (b) compare per capita income in 10 western industrialized countries and among the 10 provinces in Canada. Between 1972 and 1978, the range or amount of difference in per capita income decreased with respect to the countries but increased slightly with respect to the provinces. However, per capita income within this country varies less than between the countries of the western world.

Quality of Life

As Tables B-7 and B-8 show, Canada compares well with other western industrialized countries in terms of economic strength and social services. Table B-10 demonstrates the ranges within Canada of certain measures of the quality of life — education, family structure and crime rates.*

Nationally, almost 19 per cent of the population has less than grade 9 education but almost 9 per cent have a university degree. Newfoundland shows the lowest levels of education — over 27 per cent with less than grade 9 and 7 per cent with a university degree. Ontario has the highest percentage of university-educated people (10 per cent) and only 17 per cent of the population have less than grade 9. In general, the populations of the Atlantic provinces and Quebec have lower levels of education than those in the western provinces and Ontario.

Family structure, marriage and divorce rates are often considered indicators of the quality of life in a community. As in many other western countries, the institution of marriage has undergone considerable pressure in Canada in

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* The statistics for Yukon and N.W.T. are recorded but not analyzed because of their small populations and the resultant lower data reliability.

TABLE B-9(a)
International range of per capita income

Country	GNP Per Capita ($US) 1972	GNP Per Capita ($US) 1978	Highest to Lowest Ratio 1972	Highest to Lowest Ratio 1978	% increase 1972 to 1978
Denmark	3,670	10,580	1:3.5	1:2.8	188.3%
Fed. Rep. Germany	3,390	10,300			203.8
United States	5,590	9,770			74.8
Belgium	3,210	9,700			202.2
France	3,620	8,880			145.3
Canada	4,440	8,670			95.3
Japan	2,320	7,700			231.9
United Kingdom	2,600	5,720			120.0
Italy	1,960	4,600			134.7
Ireland	1,580	3,810			141.1

Source: *World Bank Atlas*, 1972 and 1978.

TABLE B-9(b)
Canadian Range of Per Capita Income

Province/Territory	GDP Per Capita 1972	GDP Per Capita 1978	Highest to Lowest Ratio 1972	Highest to Lowest Ratio 1978	% increase 1972 to 1978
Newfoundland	2,529	5,366	1:2.3	1:2.7	112.1%
P.E.I.	2,560	5,243			104.8
Nova Scotia	3,397	6,712			97.6
New Brunswick	3,208	6,341			97.6
Quebec	4,338	8,831			103.6
Ontario	5,732	10,673			86.2
Manitoba	4,408	8,925			102.5
Saskatchewan	3,997	9,991			149.9
Alberta	5,440	14,400			164.7
B.C.	5,263	11,029			109.4
Yukon, N.W.T.	4,921	11,031			124.2
CANADA	4,885.76	9,999.10			104.7

Source: Statistics Canada 13.213, *Provincial Economic Accounts*, 1964-1979.

recent years as is reflected in the relatively low marriage rate (7.9 per 1000) and the increasing divorce rate (2.5 per 1000). Alberta, British Columbia, Ontario and Nova Scotia have the highest marriage rates (as of 1979) and the lowest divorce rates exist in Newfoundland, P.E.I., New Brunswick and Saskatchewan.

Table B-10 – Quality of Life

Province/ Territory	% of Labour Force with less than Grade 9 Education	% of Labour Force with University Degree	Marriage Rate (1979) per 1,000	Divorce Rate (1979) per 1,000	Average Persons Per Household (1971) (1976)	Average Persons Per Family (1971) (1976)	Average Children Per Family (1971) (1976)	Lone Parent Families (1971) (1976) per 100 families	Total Property Crimes Rate (1977) per 10,000	Homicide Rate (1977) per 10,000	Total Crimes of Violence Rate (1977) per 10,000
CANADA	19	9	7.9	2.5	3.5 3.1	3.7 3.5	1.8 1.6	9.4 9.8	455.6	0.3	58.4
Newfoundland	27	7	6.5	0.8	4.6 4.1	4.4 4.0	2.5 2.1	8.9 8.7	284.1	0.5	43.9
P.E.I.	24	7	7.3	1.2	3.9 3.5	4.0 3.7	2.1 1.8	10.2 10.4	262.5	0.1	31.9
Nova Scotia	18	9	8.2	2.7	3.7 3.3	3.8 3.5	1.9 1.7	10.6 10.7	323.9	0.2	48.8
New Brunswick	26	7	7.6	1.7	3.9 3.5	4.0 3.7	2.1 1.8	9.8 9.9	276.9	0.6	40.7
Quebec	25	8	7.4	2.3	3.7 3.2	3.9 3.5	2.0 1.6	10.2 10.3	372.2	0.3	40.4
Ontario	17	10	8.0	2.6	3.4 3.1	3.6 3.4	1.7 1.5	8.9 9.6	458.9	0.2	60.3
Manitoba	20	9	7.5	2.1	3.3 3.0	3.6 3.4	1.7 1.5	9.6 9.8	513.4	0.4	59.1
Saskatchewan	22	6	7.6	1.6	3.4 3.1	3.7 3.5	1.8 1.6	8.6 8.5	493.4	0.5	66.9
Alberta	13	9	9.4	3.2	3.4 3.1	3.7 3.5	1.8 1.6	8.9 9.2	580.3	0.4	79.4
B.C.	12	9	8.6	3.4	3.2 2.9	3.5 3.3	1.6 1.4	9.4 9.6	652.5	0.4	82.8
Yukon	11	8	8.4	2.9					915.2	2.8	267.8
N.W.T.	29	8	6.4	1.8					851.7	0.9	388.2

Source: Statistics Canada, 94-831, Table 1, 1976; 93-823, 93,821, 93-803.

The number of people per family and the size of households generally decreased between 1971 and 1976. The size and structure of families changes steadily from the east coast to the west coast of Canada, and change is on the increase nationally. P.E.I., Nova Scotia and Quebec have the highest ratios of one-parent families.

Table B-10 shows clearly that the crime rate tends to be highest in Ontario and the western provinces. (For 1977, Newfoundland and New Brunswick had the highest homicide rate; however, this could be an aberration.) It appears that P.E.I. is the safest province for persons and property, while British Columbia is the least safe.

Economic Information

Table B-11 contains information pertaining to the economies of the broadly-defined regions of Canada over a twenty-year period. The information for the years 1959 and 1969 comes from O.J. Firestone's *Regional Economic and Social Disparity*; 1979 information was provided by Statistics Canada and DREE.

As in every industrialized country, Canadian per capita income has increased significantly since 1959. Nationally, per capita income has increased almost six-fold; each region has experienced an increase of five to six times the 1959 income level. However, the relative position of each region has not changed over the period in question; Ontario residents have received the most income per capita while residents of the Atlantic provinces have received the least. British Columbia, the Prairie provinces and Quebec have maintained the same rank order between the extremes of Ontario and the Atlantic region. Although the Atlantic region remains lowest in regard to disposable income, which includes the varying provincial tax structures, British Columbia now leads Ontario.

Wages and salaries vary widely across the country. The annual worker wage in the Atlantic region is $2407 below the national average, while in British Columbia the average worker receives $1439 more than the national average.

Table B-11 also illustrates the relative weakness of the labour market in the Atlantic region, in terms of participation and unemployment rates.

Table B-12 shows per capita income in each province, earned income and income from government transfers. Newfoundlanders have consistently received the lowest per capita income despite relatively high government transfers.

Table B-13 outlines the main components of government transfer payments to individuals and the increasing amounts of transfers per capita.

Table B-11 – Measures of Economic Disparity

	Atlantic			Quebec			Ontario			Prairies			British Columbia			CANADA		
Incomes	1959	1969	1979	1959	1969	1979	1959	1969	1979	1959	1969	1979	1959	1969	1979	1959	1969	1979
Personal Income:																		
— $ per capita	1,052	2,036	6,370	1,361	2,632	8,341	1,862	3,371	9,608	1,497	2,787	8,750	1,824	3,108	9,821	1,569	2,915	8,902
Personal Disposable Income:																		
— $ per capita	965	1,730	5,493	1,247	2,212	6,626	1,654	2,708	7,875	1,365	2,359	7,571	1,645	2,516	8,044	1,416	2,401	7,286
— $ per person of working age	3,175	5,165	7,682	3,557	5,619	8,689	4,271	6,463	10,399	3,765	5,977	10,433	4,572	6,006	10,607	3,912	5,995	9,749
Wages and Salaries:																		
— $ per capita	631	1,332	3,801	946	1,915	5,184	1,298	2,444	6,339	886	1,761	5,409	1,209	2,197	6,279	1,047	2,051	5,631
— $ per working person	2,248	4,234	10,447	2,857	5,200	12,520	3,448	6,070	13,449	2,488	4,571	11,743	3,492	5,440	14,293	3,017	5,373	12,854
Transfer Payments:																		
— $ per capita	157	303	1,019	136	273	1,275	157	290	976	162	284	983	199	309	1,110	156	288	1,093
Total Labour Force																		
— participation rate	48.6	49.6	55.5	53.7	56.2	60.1	56.5	59.8	66.6	55.2	58.3	66.3	55.2	59.1	62.7	54.3	57.5	63.3
Female Labour Force																		
— participation rate	21.2	29.3	40.5	25.5	34.0	44.5	29.7	38.7	53.3	27.4	36.6	51.2	25.7	38.2	48.6	26.9	36.1	48.9
Agricultural Workers:																		
— % of labour force	10.3	4.3	2.4	8.8	4.7	2.6	7.7	4.5	3.6	26.6	18.0	12.4	4.4	2.7	1.9	11.2	6.6	4.7
Non-Agricultural Workers:																		
— % of labour force	78.8	88.6	97.5	83.3	88.4	97.4	87.8	92.4	96.4	70.1	79.2	87.6	89.2	92.3	98.1	82.8	88.8	95.3
Unemployed																		
— % of labour force	7.7	6.1	11.8	5.5	6.5	9.6	2.8	3.9	6.5	1.7	2.4	4.3	4.3	4.1	7.7	3.9	4.6	7.5
— relative to Canadian average	+3.8	+1.5	+4.3	+1.6	+1.9	+2.1	-1.1	-0.7	-1.0	-2.2	-2.2	-3.2	+0.4	-0.5	+0.2			

Source: O.J. Firestone, *Regional Economic and Social Disparity* and Statistics Canada 91-201.

Table B-12 – Personal Income: 1959, 1969 and 1979

Province/ Territory	Personal Income Per Capita (dollars)	Government Transfers Per Capita (dollars)	Earned Income Per Capita (dollars)	Transfers as % of Personal Income
Canada				
1959	1,608	149	1,459	9
1969	2,943	293	2,650	10
1979	8,902	1,020	7,882	11
Newfoundland				
1959	869	152	717	17
1969	1,796	377	1,419	21
1979	5,862	1,600	4,262	27
P.E.I.				
1959	951	158	793	17
1969	1,847	360	1,487	20
1979	6,057	1,366	4,691	22
Nova Scotia				
1959	1,216	157	1,059	13
1969	2,279	305	1,974	13
1979	7,088	1,207	5,881	17
New Brunswick				
1959	1,076	162	914	15
1969	2,062	309	1,753	15
1979	6,472	1,268	5,204	20
Quebec				
1959	1,394	136	1,258	10
1969	2,601	278	2,323	11
1979	8,341	1,275	7,066	15
Ontario				
1959	1,911	160	1,751	8
1969	3,470	292	3,178	8
1979	9,608	976	8,632	10
Manitoba				
1959	1,593	161	1,432	10
1969	2,762	283	2,479	10
1979	8,198	954	7,244	12
Saskatchewan				
1959	1,323	169	1,154	13
1969	2,368	272	2,096	12
1979	8,335	1,064	7,271	13
Alberta				
1959	1,634	159	1,475	10
1969	2,944	304	2,640	10
1979	9,717	960	8,758	10
British Columbia				
1959	1,881	202	1,679	11
1969	3,226	318	2,908	10
1979	9,821	1,110	8,711	11

Table B-13 — Transfers to Persons, 1972 and 1978

Province/ Territory	Total transfers per capita*		U.I.C. as % of transfers		Family Youth Allowance as % of transfers		Old age security % of transfers	
	1972	1978	1972	1978	1972	1978	1972	1978
Newfoundland	$666	$1,558	19.8	28.2	5.4	7.6	15.0	13.3
P.E.I.	560	1,302	17.5	28.3	6.3	7.5	30.2	24.5
Nova Scotia	492	1,177	18.7	22.0	6.1	8.3	27.4	22.8
New Brunswick	516	1,246	21.5	28.4	6.1	8.3	24.5	19.9
Quebec	456	1,223	20.5	22.0	5.6	7.8	21.9	17.4
Ontario	426	929	18.1	14.9	6.6	9.8	25.5	23.2
Manitoba	441	927	14.9	12.9	6.4	10.2	31.4	29.2
Saskatchewan	430	989	12.9	9.1	7.1	10.0	34.1	28.6
Alberta	447	912	14.7	7.6	6.9	10.9	22.7	20.1
British Columbia	492	1,076	22.3	19.4	5.5	8.3	25.0	22.4
Yukon N.W.T.	299	674	23.5	18.2	11.8	18.2	11.8	11.4
CANADA	455.9	1,059	18.8	18.1	6.2	8.9	24.5	1.4

*includes federal, provincial and local government transfers.
Source: Statistics Canada 13-213, Provincial Economic Accounts, 1964-1979.

APPENDIX C

WITNESSES WHO APPEARED BEFORE THE COMMITTEE

Issue Number	Date	Witness
Third Session, Thirtieth Parliament, 1977-78		
3	February 21, 1978	(*from the Department of Regional Economic Expansion*) The Honourable Marcel Lessard, Minister Mr. J.D. Love, Deputy Minister
4	February 23, 1978	(*from the Department of Regional Economic Expansion*) Mr. J.D. Love, Deputy Minister Mr. J.D. Collinson, Assistant Deputy Minister, Western Region
Fourth Session, Thirtieth Parliament, 1978-79		
	November 7, 1978	"An informal and off-the-record discussion" with Mr. Mark Daniels, Assistant Deputy Minister, Planning and Co-ordination, Department of Regional Economic Expansion
	November 9, 1978	"An informal and off the record discussion" with Mr. Mark Daniels, Assistant Deputy Minister, Planning and Co-ordination, Department of Regional Economic Expansion
3	November 21, 1978	Mr. Richard Higgins, President, Development Planning Associates
5	November 23, 1978	Dr. T.J. Courchene, Department of Economics, University of Western Ontario

Issue Number	Date	Witness
	December 5, 1978	"An informal and off-the-record discussion" with Mr. J.D. Love, Deputy Minister, Department of Regional Economic Expansion
6	December 7, 1978	Dr. Benjamin Higgins, Department of Economics, University of Ottawa
7	February 6, 1979	(*from the Economic Council of Canada*)
		Dr. Sylvia Ostry, Chairman Dr. D.W. Slater, Director Dr. N.M. Swan, Director, Regional Studies Group
8	February 8, 1979	(*from the C.D. Howe Research Institute*)
		Mr. Carl E. Beigie, President and Chief Executive Officer Ms. Judith Maxwell, Director, Policy Analysis Ms. Caroline Pestieau, Project Manager, Accent Quebec
9	February 20, 1979	Dr. James D. Fleck, Visiting Professor of Canadian Studies in Business and Public Management, Harvard University
10	February 22, 1979	Dr. John F. Godfrey, President and Vice-Chancellor, University of King's College
13	March 22, 1979	Mr. T. Kent, President and Chief Executive Officer, Sydney Steel Corporation

First Session, Thirty-first Parliament, 1979

5	December 4, 1979	(*from the Economic Council of Canada*)
		Dr. Sylvia Ostry, Chairman Dr. D.W. Slater, Director Dr. R. Lévesque, Director Mr. H. Bert Waslander, Director, Project Staff, Sixteenth Annual Review

Issue Number	Date	Witness
First Session, Thirty-second Parliament, 1980-81-82		
2	May 27, 1980	Dr. I.A. Stewart, Deputy Minister, Department of Finance
3	May 29, 1980	Mr. G.K. Bouey, Governor, Bank of Canada
4	June 3, 1980	(*from the Department of Transport*)
		Mr. J. Charron, Assistant Deputy Minister, Co-ordination
		Mr. N.G. Mulder, Assistant Deputy Minister, Strategic Planning
		Mr. M.E. Farquhar, Director General, Government Industry and International Relations
		Mr. R.J. Marsham, Deputy Administrator, Canadian Surface Transportation Administration
5	June 5, 1980	(*from the C.D. Howe Research Institute*)
		Mr. Carl E. Beigie, President and Chief Executive Officer
		Dr. Wendy Dobson, Senior Economist
6	June 19, 1980	Dr. E.P. Neufeld, Senior Vice-President and Chief Economist, Royal Bank of Canada
7	July 15, 1980	(*from the Department of Energy, Mines and Resources*)
		Mr. M.A. Cohen, Deputy Minister
		Mr. Ross Toombs, Senior Advisor, Energy Policy Co-ordination
9	July 17, 1980	(*from the Alberta Gas Trunk Line Company*)
		Mr. S.R. Blair, President and Chief Executive Officer
		(*from Shell Canada Limited*)
		Mr. C.W. Daniel, President and Chief Executive Officer
		Mr. Z. Peter Pokrupa, Consultant Economist

Issue Number	Date	Witness
10	October 21, 1980	(*from the Province of New Brunswick*) Mr. Arthur C. Parks, Deputy Secretary to Cabinet, Economic Policy, Cabinet Secretariat Mr. J.P. Blanchard, Deputy Minister, Commerce and Development Mr. F.J. Arsenault, General Manager, Community Improvement Corporation
11	October 23, 1980	(*from the Department of Finance*) Mr. Gérard Veilleux, Assistant Deputy Minister Mr. J.H. Lynn, General Director, Federal-Provincial Relations Division
12	November 4, 1980	(*from the Department of Regional Economic Expansion*) The Honourable Pierre De Bané, Minister Mr. Robert C. Montreuil, Deputy Minister
13	November 6, 1980	(*from the Conference Board of Canada*) Dr. James Nininger, President Dr. Thomas Maxwell, Vice-President and Chief Economist Dr. Peter Gusen, Director, Provincial Economic Forecasting
16	November 20, 1980	(*from the Ministry of State for Economic Development*) The Honourable H.A. (Bud) Olson, Minister Mr. G.F. Osbaldeston, Secretary Mr. F.J. Chambers, Deputy Secretary, Policy Formulation
17	December 2, 1980	The Honourable Allan J. MacEachen, Deputy Prime Minister and Minister of Finance Mr. J.H. Lynn, General Director, Federal-Provincial Relations and Social Policy Branch, Department of Finance

Issue Number	Date	Witness
18	December 4, 1980	The Honourable Richard Hatfield, Premier of the Province of New Brunswick
19	December 9, 1980	Mr. S.R. Blair, President and Chief Executive Officer, Nova — An Alberta Corporation
20	December 11, 1980	(*from the Economic Council of Canada*)
		Dr. D.W. Slater, Chairman
		Dr. L.W. Copithorne, Director, Newfoundland Reference
21	February 10, 1981	Professor N.H. Lithwick, Economics Department, Carleton University
22	February 12, 1981	(*from the Department of Finance*)
		Mr. Gérard Veilleux, Assistant Deputy Minister
		Mr. J.H. Lynn, General Director, Federal-Provincial Relations and Social Policy Branch
		Mr. Claude Lemelin, Director, Federal-Provincial Relations Division
		Mr. D.H. Clark, Assistant Director, Federal-Provincial Relations Division
23	February 24, 1981	(*from the Department of Industry, Trade and Commerce*)
		The Honourable Herb Gray, Minister
		Mr. T.S. Czarski, Director, Corporate Planning Directorate, Corporate Affairs Branch
		Mr. R. Butler, Acting Director, Policy Analysis Directorate, Corporate Affairs Branch
24	February 26, 1981	Mr. John Frank, President, R.L. Crain Inc. and Chairman, Canadian Manufacturers' Association, Business Environment Committee
		Mr. L. Thibault, Executive Vice President, Canadian Manufacturers' Association
25	March 12, 1981	Professor R.I. McAllister, Director, Regional Employment Opportunities Program, The Institute for Research on Public Policy, Halifax, N.S.

Issue Number	Date	Witness
27	March 17, 1981	Mr. Gerald H.D. Hobbs (former Chairman of COMINCO Ltd.)
30	March 31, 1981	Professor K. Hay, Economics Department, Carleton University
31	April 2, 1981	Professor John Helliwell, Economics Department, University of British Columbia
33	April 14, 1981	(*from Le Mouvement des Caisses Populaires Desjardins*)
		Mr. Alfred Rouleau, President Mr. André Morin, Adviser to the President on Governmental Affairs
39	June 11, 1981	Professor David McQueen, Economics Department, Glendon College, York University
40	June 16, 1981	(*from the Province of Newfoundland*)
		The Honourable Dr. John F. Collins, Minister of Finance and President of the Treasury Board Mr. Cyril J. Abery, Deputy Minister, Intergovernmental Affairs Secretariat Mr. David G. Norris, Deputy Minister, Department of Finance